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Matters of Special Importance  
Foreword and Main Points

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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

Matters of Special Importance – 1995  
Foreword and Main Points

**November 1995**







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Auditor General  
of Canada  
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**November 1995**

*This November 1995 Report comprises 12 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, October and November 1995 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this document.*

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my annual Report of 1995 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(3) of the *Auditor General Act*.

A handwritten signature in dark ink, reading "L. Denis Desautels".

L. Denis Desautels, FCA  
Auditor General of Canada

OTTAWA, 21 November 1995





## **Matters of Special Importance – 1995**





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## Matters of Special Importance – 1995

### Main Points

1. This year brings us to the midpoint of the 1990s, and me to the midpoint of my term as Auditor General of Canada. In this chapter, I present issues that I consider to be of particular importance.
2. **The challenges of deficits and debt.** Managing the federal government's debt burden will require sustained action for many years to come. Good information and good debate are essential if we are to choose the best course of action: improvements have been made, but more remains to be done.
3. **Actions are needed to help make government change successful.** Federal government activities and services are undergoing fundamental change, partly due to the government's financial situation. For changes to be successful, action must be taken to address issues in a number of key elements of government management. These include financial management and control, information technology, administrative decentralization, ethical standards, Crown corporation governance, and accountability in joint programs. In addition to discussing the action needed in each of these areas, I note other issues from past years that remain outstanding.
4. Regional economic development programs provide an illustration of why government must understand and demonstrate the results of programs. The lack of sound information on results means that Canadians have little basis on which to weigh the merits of these programs.
5. In the chapter, I also highlight opportunities to find money by reducing costs and strengthening the tax system.
6. I discuss our environmental audit work and the proposed amendments to the *Auditor General Act*. The amendments propose the creation of the Commissioner of the Environment and Sustainable Development within my Office.
7. Canadians expect government to deal with problems expeditiously. Our findings concerning waste management illustrate the risks in postponing needed action.
8. I conclude the chapter with my views on the challenges that government change brings to each of us — legislative auditors, public service managers, public servants, politicians and the Canadian public.





## Introduction

9. This, my fifth annual Report, marks the midpoint of my term as Auditor General. In this chapter, I discuss both new issues and issues that have concerned me since my appointment as Auditor General — issues I consider to be of special importance.

10. This has been an eventful year in the history of my Office. Following last year's amendments to the *Auditor General Act*, we are no longer limited to one report a year. In May, we ushered in a new era with our first “additional report”. Further amendments to our Act are again before the House, this time proposing the creation of the position of Commissioner of the Environment and Sustainable Development within my Office.

11. This year also brings us to the midpoint of the 1990s — a point when we can begin to see how the decade may eventually be remembered. I venture to guess that one of two words may be used when we look back on this decade.

12. The first is “uncertainty”. The second is “transformation”, which I'll leave to discuss at the end of the chapter.

### Is this the decade of uncertainty?

13. Uncertainty seems to be never far from the minds of Canadians. Ask Canadians — especially young Canadians — about their outlook on life and they tell you of their hopes, but also their worries — worries about the changing economy, the deficit, the environment, constitutional issues, and what all this means for the future.

14. Many of these concerns are not new. So why do things now seem so much more uncertain? Perhaps it is because we sense that the pace of change is increasing. Many believe that, with the

transition into the “information age”, we are witnessing change on a scale not seen since the industrial revolution.

15. No doubt some of the uncertainty comes from the changing role of government. For years, we have come to rely on government to provide an element of stability in a changing world. Now government, too, is changing — federally, provincially and locally — raising anxiety about cutbacks and the loss of key government services.

16. I have chosen to emphasize two core themes in this chapter, and both relate to government change. The first is the government's fiscal situation, the cause of much of the change it is undergoing. The second is a number of actions needed to improve government management if change is to be successful.

Some of the uncertainty comes from the changing role of government.

## Deficits and Debt: The Challenges Ahead

17. One of my major concerns as Auditor General has been the usefulness of information on federal deficits and debt. This year Chapter 9, “Deficits and Debts: Understanding the Choices” (October), continued my commitment to explore an issue of vital interest to Canadians.

18. The size of our deficit and debt has been reported so often that the numbers seem to have lost their impact. They deserve to be considered afresh.

19. In the last 20 years, debt has increased almost twenty-fold, from \$27 billion to \$546 billion at the end of the 1994–95 fiscal year. More important, the burden of that debt — the amount of debt we owe relative to the size of our economy — has nearly quadrupled from 19 percent in 1975 to 73 percent in 1995. Over this period, other governments in

Canada has gone from having one of the lowest overall public sector debts among OECD countries to having one of the highest.

Never before have we had to generate, year after year, such a large “operating surplus”.

Canada have also increased their indebtedness. Data from the Organization for Economic Co-operation and Development (OECD) in Exhibit 1 show that over the last 20 years, Canada has gone from having one of the lowest overall public sector debts among OECD countries to having one of the highest. And among OECD countries, we have by far the highest proportion of debt held by foreigners.

#### The difficult road before us

20. One of the most important messages of our October chapter was about the long road that lies ahead. In the arithmetic of debt financing lies a stark truth. As long as interest rates continue to exceed growth rates, we will be paying more in taxes than we receive in services — likely tens of billions more — for many years to come just to stabilize the debt burden, making up for the many years when we received more services than we paid for. Never before have we had to generate, year after year, such a large “operating surplus” simply to stabilize — let alone reduce — the debt burden.

21. The road before us will not be painless. As anyone on a tight household budget knows, it takes extraordinary discipline to stay on course. For years to come, we will remain vulnerable to matters we cannot predict or greatly control. From past experience, we know that recessions and other unforeseen events can quickly reverse previous gains. On top of this, because we have borrowed extensively abroad, we must continue to convince others that we are putting our fiscal house in order if we expect to continue borrowing at reasonable rates.

22. If real interest rates were to fall and the economy were to grow at the levels of the late 1950s, 60s and early 70s, the battle against the debt and deficit would be much easier. Welcome as this would be, it may not be prudent to base our actions on such possibilities.

#### Good information and debate are essential

23. I remain optimistic that, with good information and good debate, we in Canada can choose the best course of action and maintain the discipline to keep to it.

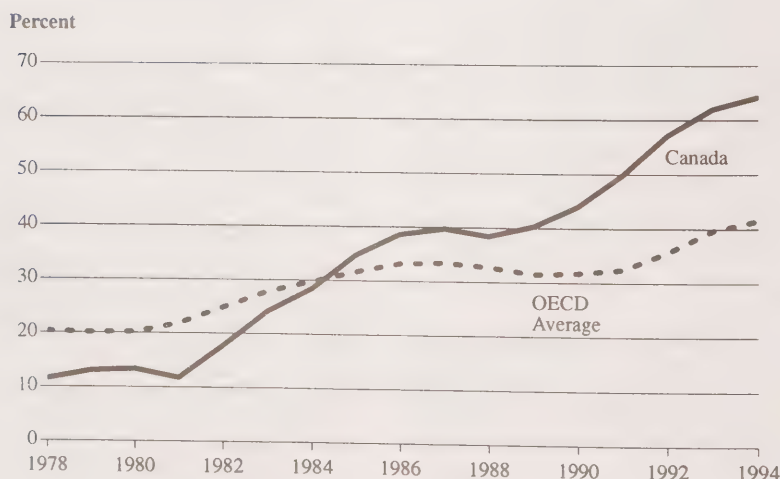
#### Exhibit 1

##### Debt Burden

Net Financial Liabilities of All Levels of Government as a Percentage of GDP

Information is based on National Accounts data, which exclude public employee pension and other liabilities.

Source: OECD Economic Outlook 57, June 1995



**24.** There have been significant improvements in the quality of information in recent years, and I am gratified that many of our suggestions have been implemented. But we are not there yet. As we noted in our October report, better information is needed on how the short-term deficit commitments in the budget fit within a long-term plan to reach a stable burden of debt. Also, we need to understand the extent of combined federal and provincial indebtedness and its impact.

**25.** And good debate is essential. Canadians seem now to agree broadly that the debt must be dealt with: agreement that improved information has helped to create. But there is honest disagreement among Canadians about how best to do it. How quickly should we attack the deficit? What should be the balance between expenditure cuts and tax increases? What are the risks and uncertainties associated with different courses of action?

**26.** Perhaps most important, we need to debate how much debt relative to our income we can afford to carry. Without that, government runs the risk of focussing on deficit targets as ends in themselves, without enough regard for the more important goal of a sustainable burden of debt.

**27.** The budget consultation exercise begun last fall by the Minister of Finance helped to spur a healthy debate about deficits and debt. The challenge now is to build on this and to make it a permanent feature of the budget process. In this way, when governments present their spring budgets for which they must be accountable, Canadians can rightfully feel that they have had an opportunity to be part of the process of making the difficult choices that lie ahead.

## Actions Needed to Make Government Change Successful

**28.** The government announced in the February 1995 Budget a series of cuts and program changes that are, in the view of the Minister of Finance, “by far the biggest set of actions in any Canadian budget since postwar demobilization.” Many provincial governments are taking similar action.

**29.** As the saying goes, “one swallow does not a summer make”, nor does one budget necessarily represent a fundamental shift in focus. But there are strong signs that significant changes have begun. The Budget reflected decisions from an exercise called program review, which asked searching questions about each government program. I am encouraged that the process moved toward a fundamental rethinking of each program and away from “across-the-board” cuts, an approach I criticized in past reports.

**30.** Whether it comes quickly or not, major change seems inevitable, due not just to the government’s financial situation but also to factors such as globalization, demographic and other societal changes and the pace of technological advances. Throughout the Western world, government is being rethought, reinvented and restructured for largely the same reasons as here.

**31.** Rethinking, reinventing, restructuring — by whatever name it is called, it is a difficult process. It is not just a matter of eliminating or revamping programs. It is not just dealing with the painful exercise of releasing staff.

**32.** It is also a matter of taking action to improve the elements that lie at the heart of government management — matters such as financial management and

I am gratified that many of our suggestions have been implemented. But we are not there yet.

Government runs the risk of focussing on deficit targets as ends in themselves, without enough regard for the more important goal of a sustainable burden of debt.



**There are strong signs that significant changes have begun.**

accountability. With so much attention drawn to program changes and expenditure cuts, the risk is that basic elements of government will receive inadequate attention, and that needed improvements will be postponed.

33. I want to dwell on this point, because I think that it is crucial if government changes are to be successful. I have devoted much of this chapter to important areas where our audits show that action is needed — actions that can contribute to the worthwhile goal of government renewal.

### **Financial Management and Control: Is It Up to Standard?**

**My staff continue to find significant problems in financial management and control across a broad range of government operations.**

34. It has been almost 20 years since former Auditor General J. J. Macdonell declared that Parliament and the government had lost, or were close to losing, effective control of the public purse. Financial management and control, he said, were “grossly inadequate”.

35. In 1987, my predecessor, Kenneth Dye, undertook a second Financial Management and Control study that found significant improvements, but also found that serious problems remained.

36. The questions we have been asking are as important as ever. Are financial controls adequate? Do managers fully understand what government services cost? Do ministers and deputy ministers have available the financial information, advice and support they need?

37. I believe there are good reasons for concern. My staff continue to find significant problems in financial management and control across a broad range of government operations. Over the past three years we have found

opportunities to reduce costs in excess of \$100 million a year through better management of fixed assets; lack of information to manage resources and to control costs; instances of insufficient involvement of senior financial officers — the individuals who have overall responsibility for the financial management function in departments — in important decisions; and little progress until recently to develop a new central accounting system for the federal government, after eight years of effort.

38. In view of the importance I attach to strong financial management, particularly in these times of extensive resource reductions and restructuring, I will be launching a series of reports on specific financial management and control issues over the next several years.

### **The challenges that Senior Financial Officers see**

39. In preparing for this work, my staff recently held discussions with a number of senior financial officers. The challenges they see facing financial management today confirm a number of my own concerns.

40. The picture that emerges from these discussions is one of a financial management environment that is changing substantially, for example:

- There is increasing delegation of authority and empowerment of employees, but without corresponding accountability for financial results within organizations.
- Senior financial officers expressed concern about the recent loss of many experienced financial staff.
- Senior financial officers want stronger leadership from the Treasury Board Secretariat, and an improved working relationship, particularly in the areas of setting standards and supporting the quality of financial management.

**Senior financial officers want stronger leadership from the Treasury Board Secretariat.**

Senior financial officers believe that resource reductions and restructuring within the Treasury Board Secretariat have had an impact on its capacity to exercise leadership and exert influence.

41. There are also positive signs. I find it particularly encouraging that some senior financial officers see their role as evolving to one closer to that played by their counterparts in private-sector companies. I have long believed that a strong senior financial officer is as important in the public sector as in the private sector.

42. These senior financial officers are assuming a broader and more strategic role for a variety of reasons: increasing “commercialization”, dramatic resource reductions and, in a number of cases, a radical redefinition of departmental lines of business. A notable change is the central role that some senior financial officers are playing in the design and integration of business systems and controls.

43. The last 20 years of effort to improve financial management and control has brought some success. But it is time for the government and this Office to take a different tack. In the current environment, it is very important to have sound financial management and control. Following discussions with the Secretary of the Treasury Board, I am pleased that we have agreed to work with Treasury Board and the senior financial community to help make financial management more effective. This will include developing a framework of financial management and control standards, assessing the current state of financial management against these standards, determining the skill and experience requirements of financial staff, and helping develop specific measures to advance the state of financial management and control.

## Better Management of Information Technology

44. Information technology is a critical part of government renewal, offering improved services while also helping government cope with resource reductions. Most organizations have become largely or totally dependent on their computer systems.

45. The challenges of information technology are succinctly summed up in the title of my 1994 Report Chapter 8, “Reaping the Benefits and Managing the Risks”. The management of information technology is indeed a risky business. Statistics from the U.S. show that in large organizations perhaps only nine percent of all systems are delivered on time and within budget. About one third fail or are cancelled before completion. Still, the benefits that information technology can bring are too important to ignore.

46. In October (Chapter 12, “Systems Under Development”) we reported on our review of four major information technology initiatives. The chapter represents a new, proactive audit approach by my Office: a review of systems while they are still being developed.

### A troubling picture

47. The picture that emerges is that far too little has been done to manage the formidable risks of information technology development projects. There are many important messages in the chapter, one of which deserves particular attention.

48. Imagine that you are a senior government executive faced with major budget cuts, unrelenting demands for new services and an aging computer system. Your computer system staff, after many months of planning, present you with a proposal to develop a new system. It

The last 20 years of effort to improve financial management and control has brought some success.

The management of information technology is indeed a risky business.

Almost everything about these large projects increases the risk of failure.

Rarely have they met the expectations on which they were sold.

Government must be realistic about what systems will actually cost and what they can deliver.

Departmental managers need flexibility if they are to deal with rapid and ongoing change.

would be a massive project, requiring a large investment and several years to complete, but the projected benefits in resource savings and improved client service are extremely attractive.

49. Tempting, isn't it? There has been a strong tendency to opt for such large computer megaprojects, with costs often in excess of \$100 million.

50. Almost everything about these large projects increases the risk of failure. Rarely have they met the expectations on which they were sold. The scale of these projects taxes even the most experienced project manager and contractor. Long project durations — measured in years, not months — mean that systems are often obsolete before development is complete. Of the four systems we examined for the October chapter, one has been cancelled, another has few users and a third requires continued corrective action. In our view, only one of the four systems is currently being managed in a way that deals satisfactorily with project risks.

#### Is smaller better?

51. The government currently lists 25 systems to be completed over the next five to 10 years, at a total budgeted cost of \$2.1 billion. Experience in the private and public sectors suggests that a modular approach to projects can yield the benefits of information technology at considerably lower risk. Systems can be designed and funded in stages, making greater use of proven off-the-shelf software and components. With much shorter project durations, tangible benefits are obtained earlier. These benefits may be able to fund the next stages of development and thus reduce the risk to the public purse.

52. In 1994, the government's Chief Informatics Officer published the *Blueprint for Renewing Government*

*Services using Information Technology*. It sets out a detailed framework for using information technology to support government renewal. It, too, proposes moving away from large projects to a phased approach to system development.

53. For information technology projects to realize their potential contribution to government renewal, government must manage their risks better. Government must be realistic about what systems will actually cost and what they can deliver.

#### Balancing Administrative Centralization and Decentralization

54. In government, as in other organizations, there is ongoing tension between pressures to centralize authority — with central agencies such as the Treasury Board Secretariat and the Public Service Commission — and pressures to decentralize authority to the so-called "line" departments. As has been the case elsewhere in the private and public sectors, the past decade has seen significant decentralization of administrative authority within the federal government. This trend of decentralization seems to be continuing.

55. I believe that there are good arguments for continuing to decentralize administrative authority. Many departments are large enough that they should be capable of handling considerable autonomy. And departmental managers need flexibility if they are to deal with rapid and ongoing change. For example, managers are unreasonably constrained by some of the "one-size-fits-all" human resource management systems and practices that govern how departmental staff are managed. I raised this concern last year with regard to scientific personnel



(Chapter 11, “The Management of Scientific Personnel in Federal Research Establishments”).

**56.** But I also recognize that there are legitimate arguments that suggest the need for caution. Are departments equipped to accept further responsibilities? Is delegation to departments being matched by appropriate delegation within departments? Is there adequate encouragement for managers to achieve results? Are there adequate accountability mechanisms to ensure that decentralization does not lead to abuse or other problems? Are central agencies able, where necessary, to exert control to ensure that government objectives and priorities are achieved?

**57.** These are very important issues for the future of the federal government, issues that I believe deserve increased attention.

## Ethical Standards in Government

**58.** In May we published a study on ethics and fraud awareness in government (Chapter 1, “Ethics and Fraud Awareness in Government”). I undertook this study because Canadians are concerned about ethics in government and I thought it was important to help foster good discussion about the subject. It is also important because government change involves giving public servants more latitude to act: “empowerment”, as it has come to be called. With fewer rules and traditional controls, sound values and ethics are essential.

**59.** Discussions about ethics are taking place in other democracies. For example, in May 1995 the first report of the Committee on Standards in Public Life in Britain was released, which discussed the ethical standards of members of

Parliament, ministers, civil servants and heads of other executive bodies.

### We cannot afford to be complacent

**60.** We found that a strong ethical base exists among public servants in the four departments we examined. Not unexpectedly, we also found some areas of concern. If these are not addressed, we could indeed find ourselves with greater ethical problems in the future. While I believe that the Canadian government compares favourably with other governments and the private sector, I do not think that we can be complacent.

**61.** The chapter stressed that it would be unfair to place the burden of maintaining ethics in government solely on the shoulders of public sector workers. Leadership by ministers and deputy ministers is critical. I also emphasized that government does not exist in a vacuum. Those who supply goods and services to government or receive benefits also have a role to play in maintaining ethics in government.

**62.** We discussed the need for a framework of ethics, including elements such as a clear elaboration of ethical principles and ethics training, which would heighten awareness of ethics and help prevent ethical problems from arising. I believe that these kinds of initiatives should be pursued before considering legislative action.

**63.** Ethics in government is a complex and controversial subject. That is why discussing it openly, and working actively to promote it — by words and by actions — is so important.

## Stronger Crown Corporation Governance

**64.** Even with recent privatizations, the portfolio of Crown corporations

With fewer rules and traditional controls, sound values and ethics are essential.

A strong ethical base exists. But we also found some areas of concern.

**The accountability and control framework for Crown corporations is sound.**

**Many Crown corporations still lack clearly articulated mandates, measurable objectives, and adequate reporting of results.**

**Boards must press management for good performance information and work with government to sort out unclear and conflicting mandates.**

remains massive. There are 48 parent corporations, with over 115,000 employees and, excluding the Bank of Canada, \$57 billion in assets. Parliamentary appropriations to these corporations have averaged \$5 billion annually. Crown corporation debt has increased significantly in recent years — up about 33 percent since 1990 to now total \$38 billion.

65. Our audit responsibilities — through annual financial audits and, since 1984, special examinations of corporations carried out once every five years — provide us with a unique perspective on this sector of government activity. In October, I provided an assessment of issues facing the sector (Chapter 10, “Crown Corporations: Fulfilling Responsibilities for Governance”). Overall, our view continues to be that the accountability and control framework for Crown corporations is sound. The situation is much improved over that which prevailed before the framework’s introduction in 1984.

#### **Important issues remain**

66. There are important remaining issues, however — issues similar to those we have reported in various chapters since 1989. Although we saw fewer instances of operational, human resource and asset management deficiencies in the last five-year cycle of special examinations, we found that many Crown corporations still lack clearly articulated mandates, measurable objectives, and adequate reporting of results.

67. New ways of addressing these problems need to be found. I think that stronger corporate governance lies at the heart of the solution. By this I mean that each party — management, boards of directors, government and Parliament —

must play a more active role in the governance of Crown corporations.

68. Management must take the lead to generate and report performance information. It is not enough that managers have a good sense of results from their day-to-day observations. These are institutions fulfilling public policy roles, with public money involved, and therefore managers are expected to demonstrate not only what they have done but also what they have achieved.

69. Boards of directors must become more proactive. Some already are, and others should follow their lead. Directors, many newly appointed, must develop a sound understanding of the corporation, and the risks and opportunities facing it. Boards must press management for good performance information and work with government to sort out unclear and conflicting mandates. Boards should help government arrive at reasonable long-term performance expectations for the corporation.

70. The government must resolve cases of unclear and conflicting mandates. It must articulate long-term expectations for each corporation, and provide latitude for corporations to meet those expectations. The government — and Parliament, too — have a role to play as proponents of strong corporate governance. Efforts to provide clear plans and good reporting are unlikely to be sustained if the information provided is not used.

71. This is important not only to strengthen the overall management of Crown corporations. Improving the governance of Crown corporations should also provide useful lessons that can be applied to other models of government activity — for example, special operating agencies and revolving funds — models



that are an important part of the changing nature of government.

## Joint Programs: Better Accountability Is Needed

**72.** Another part of the changing nature of government is a much greater involvement by other parties in the design and delivery of federal programs. Examples abound: joint federal-provincial programs, contracting out, program delivery by non-governmental organizations, delegation of programs to client groups. In the February 1995 Budget, the government announced a number of measures that further increase the involvement of other parties in the delivery of federal programs.

**73.** Joint programs offer many potential benefits. The interplay of different parties, each with different strengths and perspectives, can do much to improve client service and save money. But it also brings additional challenges. That's why I have been concerned for some time about accountability in these programs.

**74.** There is a fundamental principle underlying all programs: government remains responsible to Parliament for the expenditure of tax dollars, regardless of where or how they are spent. Consider two departments: one funds and delivers a program entirely by itself, the other participates in numerous joint programs as only one among many partners. Accountability in the latter case will be more difficult, but why should it be any less expected?

**75.** What does this principle mean in practice? First, there is a responsibility to report to Parliament and Canadians on the use of taxpayer money, both what was done and what was achieved.

**76.** Second, when the government participates in joint arrangements, it must take all reasonable steps to ensure that intended results are achieved. Accountability isn't simply about acknowledging problems after the fact, it is also about working to avoid them. Particularly important is up-front agreement about the roles and responsibilities of the parties involved and the results to be achieved.

**77.** This is a fitting time for me to return to these issues, because in October we reported on our most recent work in CIDA (Chapter 13, "Phased Follow-up of the Auditor General's 1993 Report — Phase I").

**78.** Many will remember that there have been major disagreements in past years between CIDA and my Office on the issue of accountability. In Public Accounts Committee hearings in 1991, CIDA refused to accept responsibility for problems with a coal scrubber plant in Pakistan, arguing that many factors were out of its control because the project involved other parties. Chapter 12 of my 1993 Report observed that CIDA needed to clarify its accountability to Parliament with respect to results and that there was a need to clarify the respective accountability of CIDA's staff and its partners.

**79.** The October chapter this year reports on our follow-up on the agency's efforts to manage for results and improve accountability through better reporting of results. I am particularly encouraged that CIDA has clearly recognized that it is responsible for achieving and reporting results. The initial steps CIDA has taken at its headquarters toward results-based management are in the right direction. The next steps are crucial: working with those in the field who deliver CIDA

Accountability isn't simply about acknowledging problems after the fact, it is also about working to avoid them.

The complexity of joint arrangements demands clarity of purpose and a clear definition of expected results.



Few things trouble me more than when we find examples of insufficient co-ordination and co-operation among federal government organizations.

projects to define — and become responsible for — results.

80. Accountability in the public sector is always challenging; the complexity of delivering programs with other parties makes it more so. Ironically, this may be where we eventually see the greatest advances in the concepts and application of accountability, for the simple reason that the complexity of joint arrangements demands clarity of purpose and a clear definition of expected results.

### Action on Long-Standing Problems

81. Those who read my annual reports carefully will recognize continuity in the concerns I have discussed each year in this chapter. In this and other sections, I provide an update on intractable issues discussed in previous years.

82. In the interests of space, I will not repeat all my views on issues raised in the past. Nevertheless, action on them is as important now as ever.

### Measurement of results

83. The need for a better government approach to the measurement of results was a major topic in this chapter in 1993, where I discussed the limited progress that had been made in the evaluation of programs. The government is committed to providing an update to the Public Accounts Committee this fall. We will examine this topic further and report in 1996. Later in this chapter, I discuss the critical role of information on results in regional economic development programs.

### Stewardship reporting

84. The need for departmental stewardship reporting — by which I mean a complete yet concise overview of departments' activities and results —

remains largely unmet. I remain convinced that advances are needed in the concepts and application of accountability. The government has announced that improvements will be forthcoming as part of changes to the Estimates process in the new Expenditure Management System.

### Managing overlapping federal and provincial jurisdictions

85. Managing overlapping federal and provincial jurisdictions remains important. Last year I presented a number of examples of practical, cost-effective solutions to the inevitable — and sometimes desirable — overlap of jurisdictions in a federal state.

### Interdepartmental co-operation

86. Encouraging interdepartmental co-operation remains an important, and often frustrating, priority. Few things trouble me more than when we find examples of insufficient co-ordination and co-operation among federal government organizations in issues of operations and policy. In recent public statements, a number of senior government officials have acknowledged this as an area requiring priority attention.

### Public Service renewal

87. As I noted in this chapter in previous years, there continues to be an urgent need to modernize internal administrative structures, systems and practices, including human resource management. As stated in the Clerk of the Privy Council's Third Annual Report to the Prime Minister on the Public Service of Canada, "of the challenges facing the Public Service, perhaps the most important will be to ensure that it remains a modern and vibrant national institution."

88. I believe that the prospects for successful renewal would be greatly enhanced if the government carried out

and regularly reported on — and Parliament actively considered — systematic assessments of progress toward the government's renewal aims.

## The Risks of Undermanagement

**89.** Canadians have come to expect reports of the Auditor General to be filled with examples of “fat” in government operations: overstaffing, inefficiency and uneconomical expenditures. In auditors' language, we consider these as examples of lack of due regard to economy and efficiency.

**90.** In this era of fiscal restraint, I am equally concerned about the opposite situation, where resources devoted to the core functions of running a program may be inadequate to do the job. This could be called the risk of undermanaging programs — of achieving short-term savings at the risk of much greater long-term problems. It is false economy: as the saying goes, “penny-wise, but pound foolish.” This, too, is a lack of due regard to economy and efficiency.

**91.** This was a concern also raised by the Public Accounts Committee in its ninth report on Chapter 33 of my 1994 Report (“Tax Assistance for Retirement Savings”). The amounts involved in tax assistance for retirement savings are substantial: the government has estimated that the amount of deferred tax revenue it did not collect in 1991 because of the program was about \$15 billion. In its report, the Committee noted that it “was surprised to learn that this program was managed by only three persons. The Committee believes that this number is far from adequate.”

**92.** Another potential example emerged from our work this year in the High-Technology Financial Contributions Programs of Industry Canada (Chapter 14,

“Industry Canada: Business Assistance Programs in Transition”, October). The four programs we audited were among 43 departmentally funded programs that were terminated or not renewed in the February 1995 Budget. Our concern is that as the Department withdraws from these areas, it may undermanage obligations that remain. For example, under these four programs, \$100 million of contributions remains to be paid out over the next three years and approximately \$75 million may become repayable during the next 10 years, based on a complex set of terms and conditions. To ensure that payments are made only for eligible costs and to detect when a contribution becomes repayable require experienced staff with a good knowledge of the recipient and the industry. Due to downsizing, the jobs of many of the staff who performed this function have been eliminated.

**93.** I have no particular reason to believe that examples of programs with inadequate resources devoted to their management are widespread. When they do occur, the solution is not necessarily to pour more resources into managing a program. Often it is a question of realigning priorities, upgrading skills of existing staff or finding innovative ways to function. I raise this concern because I think it is important to remain alert to the risk, and to recognize that with the decision to operate a program comes the responsibility to manage it properly.

## Regional Economic Development: Why Results Matter

**94.** The history of regional economic development programs in Canada is one of frequent change. Changes are again being made, some as a result of the February 1995 Budget.

**Undermanagement may achieve short-term savings, but at the risk of much greater long-term problems.**

**The solution is not necessarily to pour more resources into managing a program.**

**Managers should manage for results, not simply for adherence to process.**

**Decision makers have lacked information on results to help guide change.**

**Without sound information on results, Canadians have little basis to weigh the merits of the programs.**

95. This year we devoted considerable attention to these programs, with five chapters in this Report (Chapter 17, "Overview of Regional Economic Development Programs"; Chapter 18, "Atlantic Canada Opportunities Agency"; Chapter 19, "Federal Office of Regional Development – Quebec"; Chapter 20, "Western Economic Diversification Canada"; Chapter 21, "Industry Canada: Regional Development Programs"). Here, I would like to draw out some lessons for the future, to help ensure that changes now under way are successful.

96. The chapters describe a number of significant operational problems. Approval times are sometimes lengthy. Projects sometimes do not meet stated criteria for approval. There is room for more co-ordination in assessment and monitoring when projects receive funding from more than one government source.

97. The other set of problems faced by these programs concerns public confidence. Regional economic development programs have long been the subject of controversy — debates in which ideological and political differences are evident. Some argue that the programs should be abandoned, others that they should be strengthened, others that the government should try radically new approaches to development. Still others defend the status quo.

98. A good part of the answer to both sets of problems lies in putting more emphasis on achieving results and on having good information about results.

99. With shrinking budgets, requirements that vary with location, and ever-changing opportunities, it is important that managers be given considerable autonomy to make decisions, within the confines of general rules.

Managers should manage for results, not simply for adherence to process. But this demands a full accounting of activities and results, including such things as the timeliness of response, administrative costs and the economic development results obtained. It also requires managers to translate broad program purposes into specific measurable objectives.

**How do we know if these programs are working?**

100. The absence of adequate information on results has been a chronic problem in the programs. Frequent changes to programs have complicated evaluation. In turn, the lack of evaluation means that decision makers have lacked information on results to help guide change. Where information has been available, its quality has sometimes been questionable. I am convinced that better results information is possible.

101. Sound information on results should help elevate and inform the public and political debate about the value of these programs. What exactly are the economic and consequential social benefits that have resulted? Do projects provide long-term benefits? Do reports of individual problem cases represent isolated examples, or widespread problems? Without sound information on results, Canadians have little basis to weigh the merits of the programs.

102. It is interesting that much the same message emerged from our audit of more than \$2 billion spent annually by the federal government on support for training (Chapter 22, "Human Resources Development Canada: Support for Training"). Little is known about why training produces clear employment benefits in some cases but not in others. Little is known, too, about the extent to which these training programs



complement other programs such as regional economic development.

**103.** I urge parliamentarians to examine our work on regional economic development. The question to ask is not simply “Are the operational problems being fixed?” If the changes under way are to be successful, the more important question is “Will the programs likely produce the desired results and how will we know if they do?”

## Finding Money by Reducing Costs and Strengthening the Tax System

**104.** Given the government’s financial situation, finding money by reducing costs and strengthening the tax system is more important than ever. In our audit work, we find opportunities that have not been realized. I consider highlighting these to be an important way in which my Office can contribute to the goal of affordable government.

**105.** I am pleased to see that action has been taken on some of the opportunities I have noted in the past. For example, in 1993 we reported that overpayment of pension benefits to Canadians ranged from \$120 million to \$220 million annually. Subsequently, the Public Accounts Committee called on Human Resources Development Canada to make a number of improvements in the management of pension programs. Our follow-up audit (Chapter 26, “Follow-up of Recommendations in Previous Reports”) found that the Department has responded to many of the recommendations, including the implementation of measures to prevent and recover overpayments.

## Opportunities to reduce costs

**106.** As in past years, a number of cost reduction opportunities are identified in this year’s reports. For example, in May (Chapter 6, “Federal Transportation Subsidies”) we reported that inappropriate subsidy payments could be reduced by assessing claims more rigorously during the wind-up of the Atlantic Region Freight Assistance Program.

**107.** As noted earlier in this chapter, Chapter 12 of our October report (“Systems under Development: Managing the Risks”) found serious problems in the management of the large information system projects that we audited. In response to Chapter 12, Treasury Board Secretariat said, “(we have) begun the introduction of changes to the management framework for large information technology projects... We are confident that the improvements will significantly improve the success rate of government informatics projects.” Given that the government lists 25 large information systems to be completed in the coming decade at a total budgeted cost of \$2.1 billion, improving the management of information technology projects, as Treasury Board Secretariat intends, could generate very significant savings.

**108.** As an example of smaller but no less important savings possible, Chapter 7 of our May report (“Travel and Hospitality”) noted several opportunities to further reduce the cost of government travel in the tens of millions of dollars annually, by streamlining and automating travel administration, negotiating discounts on air travel, expanding the use of charter services, and making greater use of economy class. Reducing travel costs may not necessarily be easy: better information, innovation and increased

Improving the management of information technology projects, as Treasury Board Secretariat intends, could generate very significant savings.

co-operation between central agencies and departments are required.

### Strengthening the tax system

109. Last year, I stressed the importance of protecting the integrity of the tax base, one of the most valuable assets of a modern country like Canada. I expressed several concerns about the performance of our tax system, based on the Office's work over a number of years.

110. I am encouraged by the interest taken since then by parliamentarians and the government. In particular, the Minister of Finance included the government's response to our concerns in the February Budget papers. As well, the Public Accounts Committee held several hearings on tax policy and administration matters and issued three reports. The Committee's recommendations call for significant improvements, which I support. I am also encouraged that Revenue Canada has reported to the Committee its progress on compliance initiatives mentioned in my 1994 Report. The Department has also provided its action plan for revenue collections over the next two years. These actions should assist the Committee in following up on its concerns and recommendations.

111. The government needs to be constantly firm, fair and vigilant in administering the tax system. I pointed this out last year. I am again stressing this in light of this year's audit findings. Chapter 16 of our October report ("Revenue Canada: Air Transportation Tax") noted problems in the administration of the Air Transportation Tax that have led to the loss of millions of dollars of revenue and could result in non-uniform application of the tax. As well, Chapter 25 in this Report ("Revenue

Canada: The New Regime for Processing Income Tax Returns") sets out our concerns about the risks involved in Revenue Canada's new regime for processing personal income tax returns.

112. Strengthening the performance of our tax system, including maintaining the integrity of the tax base, is an ongoing process that can help government deal with its fiscal situation. Achieving this is everyone's responsibility — those who use and benefit from the system as well as those who design and administer it.

## The Environment: Our Fourth "E"

113. Mention the Office of the Auditor General, and most people think "accounting". Or maybe they think of the three "E"s: economy, efficiency and effectiveness. Many are surprised to learn that in recent years we have put considerable emphasis on a fourth "E" — the environment, an issue that ranks high among the concerns of Canadians.

114. In the past decade, in a succession of audit chapters, we have explored environmental issues from almost every conceivable angle — operational, financial, legal and accountability issues — as part of our mandate to report matters of significance to Parliament.

115. Audits reported this year maintain this multifaceted approach. In October, we identified the elements of properly designed environmental management systems (Chapter 11, "Environmental Management Systems: A Principle-Based Approach"). In May, we issued two chapters dealing with waste management — a subject to which I return in the next section.

The Public Accounts Committee's recommendations call for significant improvements, which I support.

We have explored environmental issues from almost every conceivable angle.

## A higher profile for environmental auditing

**116.** In April, the government introduced amendments to the *Auditor General Act* as part of the move toward “green” government. As this Report goes to press, the amendments have received second reading in the House of Commons and the House of Commons Standing Committee on Environment and Sustainable Development has begun to hold hearings on them.

**117.** The changes would place new responsibilities on departments to prepare sustainable development strategies and action plans for tabling in Parliament by the responsible minister. Ministers would be required to respond within 120 days to petitions from the public relating to sustainable development issues.

**118.** The changes would also place important new responsibilities on my Office, responsibilities that are a natural extension of our present environmental work. The amendments would create the position of Commissioner of the Environment and Sustainable Development, appointed by and reporting to the Auditor General. On behalf of the Auditor General, the Commissioner would monitor the departmental strategies, and action plans and the status of responses to public petitions. The Commissioner’s work would be reported in a new annual “green” report. The proposed amendments maintain my Office’s traditional independence and role; there is no requirement for the Commissioner to judge the merits of policy, to arbitrate disputes as an ombudsperson, or to examine matters outside the federal government.

**119.** We in the Office consider it important to stay at the forefront of international legislative auditing. To the

best of my knowledge, no other legislative auditor has been specifically given the full range of responsibilities proposed for the Commissioner. I look forward to continuing to serve Parliament and Canadians in this most important area.

## The Environment: An Illustration of the Risk of Postponing Needed Action

**120.** A sense of urgency should pervade government. Often it does. But sometimes it doesn’t. As one illustration, our follow-up audits find that eventually most of our recommendations are dealt with satisfactorily. As reported in our Part III of the Estimates, some 20 percent of our recommendations made between 1989 and 1992 were fully implemented, and another 43 percent showed satisfactory progress. Government disagreed with our recommendations in 3 percent of the cases, and 3 percent of the recommendations were no longer relevant.

**121.** But that still leaves 31 percent where progress has been unsatisfactory.

**122.** Urgency is essential as we strive for affordable and effective government. Priority issues deserve priority attention. The dilemma is that fewer staff and scarcer resources increase the likelihood of postponing action, at the very time when prompt action is most important. One obvious area where postponed action can have grave consequences is the fight to control the debt, the subject with which I began this chapter.

**123.** The environment is another area where there are considerable risks in postponing action. This is the underlying message of our May chapters on waste management (Chapter 2, “Environment Canada: Managing the Legacy of Hazardous Wastes” and Chapter 3,

No other legislative auditor has been specifically given the full range of responsibilities proposed for the Commissioner.

Fewer staff and scarcer resources increase the likelihood of postponing action, at the very time when prompt action is most important.



The costs of waste management are staggering.

Canadians expect government to deal with problems expeditiously.

“Federal Radioactive Waste Management”). I think these issues should be tackled with a greater sense of urgency.

**124.** Consider the evidence:

- Progress in Canada to find permanent disposal solutions for radioactive waste and PCBs is slow.
- We continue to rely on interim storage solutions for radioactive waste and PCBs, increasing costs and safety risks.
- The federal government has been slow in dealing with its own waste problems.
- Funding for the clean-up of hazardous waste sites has ended without clear plans for completing the clean-up.

**Who will pay — the polluter or the taxpayer?**

**125.** I am particularly concerned that too little has been done to protect the interests of present and future taxpayers. In many cases, companies have been unwilling or unable to pay the costs of cleaning up the waste they have produced, leaving the bill to the taxpayer. The costs of waste management are staggering: disposing of radioactive waste alone is expected to cost at least \$10 billion.

**126.** Postponing action increases the risk that waste management costs will be borne by the taxpayer, not the polluter. Radioactive waste management is again a case in point. The legislation under which the Atomic Energy Control Board operates has not been updated since 1946, leaving it without explicit authority to require nuclear waste producers to set aside funds to cover this \$10 billion in disposal costs. Had this authority been in place since the start of the regulation of the nuclear industry, hundreds of millions of dollars in potential federal liabilities could have been avoided. Unless action is taken to update the legislation, an even

greater burden could fall on future taxpayers.

**127.** Canadians expect government to deal with problems expeditiously. The challenge to government — the challenge I have discussed throughout this chapter — is considerable: government must deal with difficult program areas such as the environment, while at the same time downsizing, restructuring programs and improving basic elements of government management such as financial management and control. It is a tall order, but one that must be filled.

## Conclusion

**128.** I began this chapter by saying that “uncertainty” may be one of two words used in years to come to describe Canada during the 1990s. “Transformation” is the second word.

**129.** Will we remember the 1990s primarily as a time of uncertainty or of transformation? The choice is largely up to us. It depends on how we respond in the remaining years of this decade to the issues before us: constitutional issues, the government’s fiscal situation, demographic and other societal changes, technological advances and globalization.

**130.** I see plenty of reason to be optimistic, particularly when it appears that most Canadians now recognize the seriousness of the government’s financial situation and understand its consequences better. They recognize that change is needed, and with that recognition has come broad support for refocussing government. There is growing recognition, too, in Canada and elsewhere, that a sound government sector is key to a nation’s economic well-being.

**131.** Some who have embraced the idea of government renewal do so because they believe that “the less government, the

better”. But the majority — I among them — see it as the challenge of focussing government on the services and role that we Canadians value.

**132.** There are challenges in this for each of us.

**133.** For legislative auditors, the challenge is to help, not hinder, the process of change.

**134.** For public service managers, the challenge is considerable. It was much easier to manage when resources were not as scarce. Perhaps the greatest challenge for managers — one that I have emphasized throughout this chapter — is to concentrate on results and not follow process merely for its own sake. It is also critical that managers work to maintain morale in the public service during the painful process of downsizing and adjustment. This is not just to provide public servants with the humane, open and satisfying work environment they deserve,

but also to provide taxpayers with the value for money that a highly motivated public service can deliver.

**135.** For public servants, the challenge is to continue to innovate, to remain motivated and enthusiastic about serving the public interest, even in the face of less job security.

**136.** For politicians, the challenge is to find the right balance between action on the debt and all other competing national priorities. These are tough choices.

**137.** For all of us, the challenge is to look beyond narrow self-interest: to accept that fundamental change will indeed affect everyone, and sometimes in unwelcome ways. We can flounder around in uncertainty, postpone tough decisions, bemoan the loss of our favourite government programs, and blame international money markets for our plight. Or we can choose to get on with the business of transformation.

**Will we remember the 1990s primarily as a time of uncertainty or of transformation? The choice is largely up to us.**





# Foreword





# Report of the Auditor General to the House of Commons for November 1995

## Foreword

In June 1994 the *Auditor General Act* was amended to provide authority to table each year one annual report, not more than three additional reports, and any special reports on matters of pressing importance or urgency.

My Office views this amendment as an opportunity to improve our service to Parliament. When we were limited to one annual report, members of Parliament were sometimes asked to deal with material that was no longer current. Having the authority to issue up to three additional reports a year will mean that we can provide more timely and relevant information on the results of our work.

Parliament's ability to address our audits without undue delay means that corrective action can be taken sooner and potential savings to the taxpayer increased. Because of the urgent need to reduce government deficits and the public debt, it is important to demonstrate that identified opportunities for savings are acted on swiftly.

I am pleased to table our annual Report. In addition to this Foreword and the Main Points that follow, there are 12 chapters, issued separately:

- Matters of Special Importance – 1995
- Overview of Regional Economic Development Programs
- Atlantic Canada Opportunities Agency
- Federal Office of Regional Development – Quebec
- Western Economic Diversification Canada
- Industry Canada: Regional Development Programs
- Human Resources Development Canada: Support for Training
- Indian and Northern Affairs Canada: On-Reserve Capital Facilities and Maintenance
- Revolving Funds in the Parliamentary System: Financial Management, Accountability and Audit
- Revenue Canada: The New Regime for Processing Income Tax Returns
- Follow-up of Recommendations in Previous Reports
- Other Audit Observations

This year, we also issued a report in May and another in October. In future years we plan to table not more than three reports, but not necessarily three, in addition to the annual Report.



## Foreword (cont'd)

After this first yearly cycle of reports, I have undertaken to consult with parliamentary committees and other members of Parliament, as appropriate, to determine whether our scheduling of reports has been generally satisfactory or can be improved. We will also review the impact on departmental operations.

Our overriding goal is to make our service to Parliament as timely and relevant as possible. The amendments to the *Auditor General Act* have brought us closer to achieving that goal.

In addition to this report and those I submitted to Parliament in May and October of this year, my Office has provided:

- an opinion and observations on the Financial Statements of the Government of Canada
- an auditor's report and observations on the Statement Required under the *Spending Control Act*
- an auditor's report and observations on the Debt Servicing and Reduction Account Statement of Transactions
- 37 audit reports to the ministers of Crown corporations (as listed in Appendix "E")
- 13 audit reports to the deputy ministers of federal departmental corporations
- an auditor's report and observations on the Financial Statements of the Government of the Yukon Territory
- an auditor's report and observations on the Financial Statements of the Government of the Northwest Territories
- 15 audit reports to the territorial governments concerning their corporations
- 7 audit reports to the governing bodies of other Canadian entities
- 3 audit reports as requested by the Minister of Finance
- 3 audit reports and one interim audit report to the governing councils of international organizations

Further, in 1995 my Office completed 15 special examinations of Crown corporations, as listed in Appendix "E".

Under Section 11 of the *Auditor General Act*, I may undertake assignments at the request of the Governor in Council. During the past year I have accepted one such assignment and completed another, the audit of the International Development Research Centre. The results of that audit were reported to the Minister as specified in the request and were made public by him. My Office also completed, at the request of the Privy Council Office, a special report on the cost-sharing arrangements between the governments of Canada and Quebec related to the July 1990 Oka crisis; that report was made public by the Privy Council Office.

## Main Points





## Main Points

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# Ethics and Fraud Awareness in Government

*Assistant Auditor General: Richard B. Fadden*  
*Responsible Auditor: Alan R. Gilmore*

## Chapter 1 – Main Points

**1.1** Canadians are concerned about integrity in government and they have the right to expect the highest ethical standards in their governments. However, they also need to appreciate that they have raised similar concerns about the ethical standards of a number of other institutions and occupations and that these ethical standards, as well as their own, influence those in government.

**1.2** We did not undertake this study because we believe that ethical standards in Canadian governments are declining or are worse than those in the private sector. The expectations of Canadians for ethical conduct in the public sector are probably greater than for most of the private sector.

**1.3** Nor did we undertake this study because we believe that ethical standards in Canadian governments are worse than those of other countries. We believe that Canadian governments compare very favourably with others in their integrity.

**1.4** However, Canadians are concerned about integrity in government. If Canadians do not trust their governments to act ethically, governments will find that their actions have less and less legitimacy and effectiveness. Thus, we believe that it is important to discuss ethics in government and to take action to maintain and promote ethics in government.

**1.5** The chapter addresses only a part of the subject of ethics in government — ethics in decision making. Ethics in decision making means that decisions are made impartially and objectively, and in the public interest.

**1.6** The chapter proposes a framework for ethics in government that recognizes the importance of existing government measures and reflects the results of extensive interviews with public servants about ethics and fraud awareness. The objective of this framework is to help ensure that the principle that public service is a public trust is the cornerstone of Canadian public administration.

**1.7** The chapter also reports the results of our interviews with public servants in four departments. The results indicate that we are starting from a strong base of ethical standards among public servants. However, we found some areas of vulnerability. We are concerned about them because they could pose a threat to the existing strong base of ethical standards.

**1.8** Although we report findings from interviews with public servants, it clearly would be unfair to place the responsibility for maintaining ethical standards solely on the shoulders of public servants. Leadership by members of Parliament, ministers, and deputy ministers is critical to maintaining ethical standards and performance in government. Maintaining ethics in government also is the responsibility of those who supply goods and services to government or receive benefits from government. It is for these reasons that we propose an ethical framework to maintain and promote ethics in government.





# Environment Canada: Managing the Legacy of Hazardous Wastes

Assistant Auditor General: Robert R. Lalonde

Responsible Auditors: Wayne Cluskey and Cameron Young

## Chapter 2 – Main Points

**2.1** In 1989, the Canadian Council of Ministers of the Environment approved \$250 million in funding for the National Contaminated Sites Remediation Program to develop technology and clean up contaminated sites. When funding for this joint federal-provincial program ended on 31 March 1995, no national plan or federal fund had been created for cleaning up the remaining contaminated sites that pose risks to human health and the environment.

**2.2** Comprehensive and consistent information on the number and characteristics of contaminated sites in Canada is not available. This information is essential for estimating clean-up costs and planning action on high-risk sites.

**2.3** As of 31 March 1995, only 11 of 48 high-risk contaminated sites identified for remediation under the National Contaminated Sites Remediation Program had been fully remediated under federal-provincial agreements. In 1995–96, Environment Canada plans to continue the clean-up of up to 13 of the remaining 37 sites, which are in various stages of remediation. Several sites still pose risks to human health and the environment.

**2.4** The Department has not proposed amendments to the *Canadian Environmental Protection Act* (1988) or developed regulations under the Act that could help ensure adequate control of environmental risks associated with federal facilities and lands, including the clean-up of federal contaminated sites. However, it has provided an analysis of the issues and options available to the House of Commons Standing Committee on Environment and Sustainable Development, which is currently reviewing the Act.

**2.5** The Department did not meet a requirement to report to Cabinet by late 1992 on the clean-up of federal sites and the adequacy of funds for this purpose. Preliminary studies indicate that the clean-up will probably cost at least \$2 billion, but better information is needed on the number and characteristics of sites. In addition, none of the potential liabilities have been disclosed in the Notes to the Financial Statements and in the Notes to the Annual Financial Report of the Government of Canada.

**2.6** Furthermore, the Department has not provided Parliament with adequate information through its Part IIIs of the Estimates on actual costs incurred by the National Contaminated Sites Remediation Program, on Program results, on significant constraints to achievement of Program objectives, or on Program funds used for other purposes. However, the Department has made a significant contribution to annual reports on the Program by the Canadian Council of Ministers of the Environment.

**2.7** The use of polychlorinated biphenyls (PCBs) and the storage and destruction of federal PCB wastes are controlled under the regulations of the *Canadian Environmental Protection Act* to minimize risks to human health and the environment. In 1990, the Green Plan called for destruction of all federal PCBs by 1996. However, the federal PCB Destruction Program, which had been in effect since 1988, ended on 31 March 1995. Moreover, lack of public approval is delaying the process of siting destruction facilities, and equipment containing PCBs remains in service. Therefore, the risks of accidents and the costs of storage will continue into 1996 and beyond.

## Chapter 2 – Main Points (cont'd)

**2.8** On 31 March 1995, Environment Canada terminated its leadership role in the management of PCB destruction, without devising a plan to guide federal departments to further consolidate PCB wastes, reduce their volume and develop action plans for their destruction. This could seriously impede the government's ability to ensure safe and cost-effective storage and timely destruction of federal PCB wastes.



# Federal Radioactive Waste Management

*Assistant Auditor General: Maria Barrados*  
*Responsible Auditor: Ellen Shillabeer*

## Chapter 3 – Main Points

**3.1** The federal government has a significant role in developing overall policy and federal strategy for radioactive waste management. It has jurisdiction over, and regulatory responsibility for, nuclear energy, including radioactive waste. The government also conducts research on radioactive waste and is an owner of some of this waste.

**3.2** Radioactive waste management involves the handling and treating of radioactive waste, as well as its transportation, storage and disposal. Storage involves managing radioactive material in a safe manner with provision for retrieval. Disposal refers to permanent placement of radioactive waste with no intention of retrieval.

**3.3** Federal regulatory policy states that the objectives of radioactive waste disposal are to minimize any burden placed on future generations, to protect the environment and to protect human health. Radioactive waste is generally managed in facilities licensed by the Atomic Energy Control Board (AECB), which provides assurance that the waste is stored in a safe manner. The AECB considers that the current management of the waste is only an interim measure and that long-term solutions are required to ensure long-term safety. Canada has no disposal facilities for any of its high-level or low-level radioactive waste.

**3.4** Since the early 1950s, Atomic Energy of Canada Limited (AECL) has carried out research on the disposal of high-level radioactive waste, primarily used fuel from nuclear reactors. A major research and development program was initiated in 1978 to find a solution for disposal of this waste. Throughout the program, Canada's target dates for having an operational disposal facility have continually been extended, with 2025 being the current target date for such a facility. Moreover, Canada's program has not kept pace with some other countries. For example, Sweden, which is developing a similar concept, plans to have an operating repository by 2008. Decisions still have to be taken in Canada on whether and how to proceed to a disposal solution. Despite the significant investment, in Canada, of about \$538 million in research and development, there has been no consideration of alternative approaches for moving Canada's high-level radioactive waste program forward after March 1997, when current federal funding ends.

**3.5** Low-level radioactive waste from ongoing operations of the Canadian nuclear industry is currently stored in AECB-licensed facilities, but a plan needs to be developed for its disposal. Unlike some other countries, Canada does not have an approved disposal technology or any disposal sites or facilities for this operational waste.

**3.6** Historic wastes are another type of low-level radioactive waste. They are the responsibility of the federal government and are currently being monitored and managed as an interim measure to protect public health and the environment. Various federal initiatives have been undertaken to find long-term solutions. In particular, once the current Siting Task Force presents its report, decisions will be required by the government on implementing long-term solutions for the Port Hope area historic wastes.

**3.7** Uranium tailings, another class of radioactive waste, fall under federal and provincial regulations. The AECB chose not to license uranium mines that had ceased operations prior to 1976. As a result, these pre-1976 sites have not been subjected to the AECB's current regulatory regime and need to be brought under its regulatory control. The federal and provincial governments need to assign residual responsibilities for the rehabilitation and decommissioning of uranium tailings sites in Ontario and Saskatchewan and for the provision of their long-term institutional care.



## Chapter 3 – Main Points (cont'd)

**3.8** The federal share, over the next 70 years, for implementation of disposal solutions for Canada's radioactive waste is approximately \$850 million of the at least \$10 billion that is the responsibility of Canadian waste producers, in particular the nuclear utilities. The federal share will increase if the government has to assume residual responsibilities for any of the waste producers. To date, none of the potential liabilities have been disclosed in the Notes to the Financial Statements and in the Notes to the Annual Financial Report of the Government of Canada.

**3.9** To minimize future federal liabilities and the burden on future generations, Canada must now translate its technical knowledge into implementation of long-term, cost-effective solutions for its radioactive waste. It is also important to ensure that funding arrangements are in place to meet the financial requirements of future solutions. The federal government has an important role to play in making the transition to long-term solutions for used fuel and low-level radioactive waste. In addition to providing policy direction, Natural Resources Canada should work toward establishing an agreement among the major stakeholders on their respective roles and responsibilities and the approaches and plans for implementing solutions.



# Health Canada: Management of the Change Initiative at Health Protection Branch

*Assistant Auditor General: Maria Barrados*  
*Responsible Auditor: Dan Rubenstein*

## Chapter 4 – Main Points

**4.1** The Health Protection Branch (HPB) of Health Canada is mandated to carry out programs to assess and manage the public health risks faced by Canadians. It plays a unique national role in protecting Canadians against current and emerging public health risks.

**4.2** Managers of the Branch were concerned that they could not continue to cut their budgets and, at the same time, meet their obligations to Canadians to manage current and new public health risks. In 1993, the Branch turned to a program of change management to help resolve this dilemma.

**4.3** This chapter examines the early progress made by the Branch in bringing about change to deal with the dilemma facing it, as well as to fix some known program problems. We examined the initiative early in the change process to determine whether the Branch's experience could be of help to others facing the same pressures.

**4.4** The Branch successfully marshalled the necessary resources to get the process under way. A reasonable initial process was developed and a vision of what was to be achieved was set out. A plan of action called the New Enterprise began implementation in April 1994.

**4.5** The process resulted in a number of early achievements such as organizational changes, development of Branch policy and improvement to internal systems.

**4.6** Some compromises were made early in the process. Necessary data on the effectiveness and related costs of programs and activities were not always available. Early attempts at developing an approach to the management of public health risks did not produce a useful result that clearly distinguished various public health risks. These areas need attention for the New Enterprise to move forward.

**4.7** In areas of continued focus and attention, such as cost recovery, progress continues to be made. Targets have been set and increased revenue is being generated. The speed with which the Branch can reach its targets is strongly influenced by approval processes outside the Branch's control.

**4.8** After the first early achievements, the momentum for change throughout the Branch slowed. Pressure had been kept on managers to change through regular review and scrutiny by an oversight committee. The Branch needs to explore ways of rekindling some of this early pressure and enthusiasm.

**4.9** At this early phase of the change process, we found slow progress in fixing a number of known program problems. For example, while some action has occurred in the Drugs Directorate, key issues identified in past studies still remain outstanding. Similarly, for the Medical Devices Bureau, many of the changes recommended in 1992 are still not fully implemented. Success in making changes in programming will require sustained effort to solve these problems.

**4.10** The experience of HPB points to the importance of managers being proactive. Government managers face many demands from inside and outside their organization for change in programming and budget requirements. By having initiated their own review process, managers in HPB were better positioned to meet the requirements of the government-wide program review and still be in a position to deal with Branch priorities. This ability to respond became even more important with the demands for continuous change and adjustment.

## Chapter 4 – Main Points (cont'd)

**4.11** The speed with which managers at the Branch can change their programs and activities is tied to the demands of approval processes outside the Branch, such as regulatory approval and authority for cost recovery. The challenge for government will be to find ways to accommodate government-wide requirements, while supporting initiatives in smaller units of government such as the Health Protection Branch.





*Assistant Auditor General: Ron Thompson*  
*Responsible Auditor: Beant Barewal*

## Office of the Superintendent of Financial Institutions

### Deposit-taking Institutions Sector

## Chapter 5 – Main Points

**5.1** The financial services industry has undergone significant change in recent years. Some members have remained strong; several others faced significant difficulties and some did not survive. How well has the Office of the Superintendent of Financial Institutions (OSFI), and the regulatory system overall, done at ensuring the safety and soundness of deposit-taking institutions while meeting the government's objectives? We did not find a satisfactory answer to this question. Although the February, 1995 White Paper deals with several of the related issues, a comprehensive evaluation of the system's effectiveness is required.

**5.2** There are certain structural weaknesses in the regulatory system. OSFI's mandate is not stated in one statute. The responsibilities of OSFI, the Canada Deposit Insurance Corporation (CDIC) and the Department of Finance for public policy objectives such as stability and competitiveness of the financial system are unclear. And the Department of Finance has not set out in clear terms how it ensures proper functioning of the regulatory system.

**5.3** Accountabilities of the key players in the federal regulatory system are not defined well enough for them to measure and report on their performance. Regulatory processes need to be more transparent and OSFI needs to disclose, to the extent possible, more information about its handling of financial institutions. It should also consider providing to institutions information on best practices in the industry and peer group comparisons.

**5.4** OSFI and CDIC responsibilities overlap in several areas. While some overlaps may provide useful checks and balances, others that are judged to be counterproductive should be either eliminated or managed better. Both organizations are making serious efforts to improve co-ordination.

**5.5** OSFI must ensure that it is equipped to handle the challenges of the future, as the financial services industry continues its rapid evolution. In particular, OSFI needs to shift some of its emphasis from annual examinations to periodic monitoring of institutions, as their circumstances can change rapidly in this dynamic industry. OSFI should also clarify its expectations in respect of corporate governance in financial institutions and give ongoing attention to studying areas of system-wide risk, such as financial conglomerates and securities activities.

**5.6** OSFI's supervisory processes have improved over time, but further significant work needs to be done. For dealing with troubled institutions, OSFI needs to strengthen its processes used to support the exercise of discretionary powers and the development of comprehensive action plans to ensure that remedial measures are taken promptly. In addition, specialized risk areas should be examined in more depth; examination methodology is still developing; post-examination quality control reviews and post-mortem analysis need to be upgraded; and further attention needs to be given to strengthening skills, training and experience of the examination staff.

**5.7** OSFI has several important opportunities to achieve organizational efficiencies. Its examination, monitoring and policy functions remain largely separate and distinct between the deposit-taking institutions sector and the insurance sector, while there is increasing integration of these sectors in the financial services industry.



Assistant Auditor General: *Shahid Minto*  
Responsible Auditor: *Hugh A. McRoberts*

## Federal Transportation Subsidies

### *The Western Grain Transportation Act Program*

### *The Atlantic Region Freight Assistance Program*

## Chapter 6 – Main Points

**6.1** On 27 February 1995, near the end of our audit of the *Western Grain Transportation Act Program* and the Atlantic Region Freight Assistance Program, the government announced the termination of both programs effective 1 August and 1 July respectively. Notwithstanding, we decided to proceed with the presentation of certain of our observations for several reasons: some will assist Parliament in its deliberations on these programs, some will assist in accountability, and some point to matters that will need attention in the wind-up or transition phases of these programs.

**6.2** In presenting our findings on these two programs in a single volume, there is a risk that the reader might be led to make comparisons between the two programs. However, each program is unique, with different acts and objectives, and they presented their respective managements with very different sets of challenges. In some circumstances, what was easy for one was difficult for the other due to the wide differences in the design and history of the programs.

### *The Western Grain Transportation Act Program*

**6.3** The *Western Grain Transportation Act* (WGTA) was passed in 1983 to facilitate the transportation and handling of Western grain. We examined the roles of the Grain Transportation Agency (GTA) and the National Transportation Agency (NTA) in the program.

**6.4** The Grain Transportation Agency has responded to the recommendations that we made in 1987 with respect to the preparation of the grain forecast. However, it has not fulfilled the requirements in the Act for monitoring the performance of the railways and others involved in the grain transportation and handling system.

**6.5** Because the rate for grain transportation by rail will continue to be regulated during the transition period for the program (until 2000), the issues of grain hopper car allocation, demand peaking, and the efficient use of the grain hopper car fleet will continue to need attention. We discuss these issues briefly and make recommendations to the Department of Transport, which will be responsible for managing these matters when the Grain Transportation Agency is abolished.

**6.6** We observed that the National Transportation Agency had appropriate controls in place for the *Western Grain Transportation Act* payments to the railways.

**6.7** The Act requires the National Transportation Agency to conduct an annual review of railway investment plans and a quadrennial review of the railways' costs for grain transportation. Both reviews require the Agency, among other things, to assess investments and costs with respect to their contribution to "an adequate, reliable and efficient" rail transportation system for Western grain. In both cases, the Agency has informed us that it carried out the required assessment on a qualitative basis; in both cases, the documentation of this aspect of the Agency's work did not allow us to determine whether or not the Agency's conclusions were correct.

**6.8** At the end of the transition period, the government has mandated that two program reviews will be done: one by industry in 1998, and the other by the government in 1999. The Department of Transport and the National Transportation Agency must begin planning and gathering data now to ensure that the necessary information to carry out these reviews will be available.

## Chapter 6 – Main Points (cont'd)

### The Atlantic Region Freight Assistance Program

6.9 The Department of Transport has prepared a study titled *Atlantic Region Freight Assistance Program, Information Paper* to measure the effects of the program. We reviewed the *Information Paper* and found it to be, within the limitations of the state of the art for such studies, sound and reliable.

6.10 In the Intra-regional subprogram, the courts have taken a narrow interpretation of the regulations on assessing the eligibility of movements involving non-arm's length shippers and carriers. The Agency recommended changes to the regulations, but no action was taken.

6.11 Deregulation of freight rates in the late 1980s has resulted in a growth in the number of shippers and carriers operating at less than arm's length. Because the rates charged by these carriers are not subject to the discipline of the market place, there is a danger that they may be inflated to attract larger subsidies.

6.12 The cumulative effect of the growth in rate deregulation and in the number of non-arm's length shipper-carriers was that the program's structure, which was designed for another era, was increasingly ill suited to the state of the industry it was subsidizing.

6.13 The Agency does not assess the reasonableness of the freight charges submitted to it for subsidy. It believes that it does not have the authority to do so.

6.14 It will be important to ensure that controls over subsidy payments are rigorously enforced during the program wind-up period.





# Travel and Hospitality

*Assistant Auditor General: David H. Roth*

*Responsible Auditor: Trevor R. Shaw*

## Chapter 7 – Main Points

**7.1** Travel is needed to deliver government programs. Travel is expensive by nature. Travel expenditures were \$685 million in 1993-94, in addition to the value of the time of public servants when travelling and to the cost of travel administration. Overall, we found that the management and accountability for travel can be improved.

**7.2** Our audit confirmed that there is a low risk of widespread non-compliance with rules governing travel entitlements. Although data are available at the responsibility centre level, information is not organized for senior management to efficiently assess the need for and costs of travel in relation to program benefits. Travel is administered through a system of entitlements. A rule-based system has advantages. However, more emphasis on a values-driven system may lead to more cost-effective travel and better employee morale.

**7.3** For the majority of air travel, public servants use economy class. During 1993-94, the Government Travel Service booked more than 230,000 tickets for air travel. Of these, over 93 percent were economy class and less than 7 percent were first class and business class.

**7.4** Departments are working to reduce travel costs. Purchasing discounted economy-class tickets through the Government Travel Service saved the government \$37.7 million during 1993-94. Opportunities for further savings include greater use of technology to replace travel, arranging direct discounts for air travel, and extended use of charter air services. Automation and streamlined procedures have the potential for improving control and reducing the cost of travel administration. Pursuit of these opportunities will require focussed effort and co-operation among central agencies and departments.

**7.5** Hospitality spending of all departments is not significant in total. Half the spending is concentrated in two departments: Foreign Affairs and International Trade, and National Defence.



## Travel Under Foreign Service Directives

*Assistant Auditors General: Richard B. Fadden and David H. Roth*

*Responsible Auditor: Trevor R. Shaw*

### Chapter 8 – Main Points

**8.1** In our 1994 Report, we stated that the Department of Foreign Affairs and International Trade had investigated irregular travel claims submitted by employees under foreign service directives. Further, we indicated that we would follow up on the actions taken by the Department to rectify this problem and would report our findings in May 1995. Travel irregularities were first detected in 1988. A lengthy investigation was begun almost immediately and concluded in September 1994. The final disciplinary actions will be taken during 1995.

**8.2** The investigation of travel irregularities by the Department was thorough and identified amounts were recovered. The disciplinary process was well managed and penalties were given for misconduct, mostly in the form of suspensions. This page in the Department's history can now be turned. It is more important to concentrate on the present and the future.

**8.3** The Department must continue to work to improve its management of travel. Accountability for the results of foreign service directives needs further clarification by Treasury Board Secretariat in collaboration with affected departments. Decision making by the Department and the Treasury Board Secretariat could be supported by better analytical information.

**8.4** In our 1994 Report, we observed that foreign service directives remained complex, and our long-standing concern about this has not been fully resolved. This chapter further illustrates that problem. Changes that were made in 1993 to foreign service directives have provided increased flexibility to employees in the use of travel allowances. The results of these changes, including cost savings, have yet to be assessed. The upcoming triennial review in 1996 should be used as an opportunity to do that. As reported in 1994, the need for a fundamental re-examination of the foreign service directives system remains as the larger challenge.



*Assistant Auditor General: Ron Thompson*  
*Responsible Auditor: Jeff Greenberg*

## Information for Parliament

### Deficits and Debt: Understanding the Choices

## Chapter 9 – Main Points

**9.1** The federal government has been borrowing money and reporting that information since Confederation. As auditors, we believe that those financial numbers should not only be credible and understandable, but also useful. This means putting them into context by comparing the debt to some relevant reference point like the size of the economy. Doing that shows that for 1994–95, the federal debt of \$546 billion amounts to close to three quarters of the income generated by Canadians last year.

**9.2** It is difficult to know, however, whether this debt burden is too high, too low or just right; that is largely a matter of opinion. In forming that opinion, Canadians need to understand that the larger the debt burden becomes, the greater the weight of interest charges and therefore the less available for program needs, without resorting to higher taxes.

**9.3** While this is an uncomfortable situation, the alternative of reducing the debt burden to avoid the constraining effect of interest charges, namely through higher taxes and/or reduced spending, is also uncomfortable.

**9.4** To date, discussions about fiscal policy have focussed on deficit reduction and balanced budgets. They have not given enough consideration to the larger question of how much debt we can sustain over the long haul, and how that fits within our view of taxation and the role of government. We believe that the government should engage Parliament in developing this vision.

**9.5** For such a debate to be meaningful, Parliament needs information to help clarify the choices. We believe that the federal government ought to provide that longer-term information as part of the fall budget consultation process. In our view, only when government is committed to a vision about how much debt it is prepared to carry, and crafts budgets with that in mind, will it be possible for Canadians to assess how annual budgets fit into a longer-term vision for sustainable debt.

**9.6** We conclude the chapter by reminding Parliament and the public that we have been speaking only about the federal government. The reality is that there are three levels of government taxing us and borrowing on our behalf. If we are ever to look beyond each jurisdiction in isolation and ask the question how much debt can Canadians carry, we need to know how much debt is owed by all levels of government in Canada. Information currently available doesn't answer that question very well. We believe that it should.





## Crown Corporations

### Fulfilling Responsibilities for Governance

Assistant Auditor General: Wm. F. Radburn  
Responsible Auditor: Grant Wilson

## Chapter 10 – Main Points

**10.1** Public policy objectives and government activities are carried out through a variety of organizational forms. Although the number of entities is decreasing, the Crown corporation form continues to be the most significant outside of departments and agencies. Each form requires an appropriate degree of control and of accountability, and Crown corporations have a framework established for this purpose under Part X of the *Financial Administration Act*.

**10.2** The Part X framework for Crown corporations permits flexibility in operations, with appropriate controls, and clearly sets out the mechanisms to account for the way responsibility has been fulfilled by those in authority. The control and accountability framework is a sound legislative framework and one that, in our view, has been working well over the 11 years it has been in force. A much improved situation exists today compared to that which prevailed prior to its introduction in 1984. In our view, Canadians are generally well served by this framework governing the activities of Crown corporations.

**10.3** However, in the second cycle of special examinations (a type of value-for-money audit) conducted by the Office, in 80 percent of the active corporations there was at least one significant deficiency reported to the board of directors. The areas reported on most frequently related to: (1) corporate and strategic planning and (2) performance measurement and reporting. In fact, every corporation with a significant deficiency had at least one reported in one of these two areas.

**10.4** In some corporations, corporate mandates may not have been adequately interpreted to allow objectives to be established in a way that would enable their achievement to be determined. In others, the type of performance information collected and reported is not oriented sufficiently toward the outcomes of corporate programs or activities. In only a few corporations we examined were actual results compared against meaningful targets. While information is often provided on what corporations do, insufficient information is provided on what is achieved. Consequently, government and Parliament are less able to hold corporations to account for their achievement of intended results.

**10.5** The process and structure, called *governance*, used to direct and manage the affairs of the corporation with the objective of enhancing its value to Canadians can help to address these issues. Governance of Crown corporations is not solely the responsibility of the board of directors; active involvement of government and Parliament is also required. We outline a number of measures that might be taken by all those who have a governance responsibility.

**10.6** The majority of Crown corporation chairs and CEOs, in responding to our survey in February 1995, supported the need for and worth of special examinations to the corporation, government and Parliament as a means of assessing accountability information. In preparing for the third cycle of special examinations, we anticipate achieving greater efficiencies and providing increased value to all those in the governance chain.

## Chapter 10 – Main Points (cont'd)

**10.7** Other matters relating to control and accountability of Crown corporations and their overall management include the following:

- Crown corporation debt has increased significantly;
- some corporations are subject to income tax while others are not;
- exempt Crown corporations should be revisited with the objective of establishing a framework for control and accountability similar to that in Part X; and
- reporting appropriations as revenue should be discontinued.



# Environmental Management Systems

## A Principle-based Approach

*Assistant Auditor General: Robert R. Lalonde*  
*Responsible Auditor: Wayne Cluskey*

### Chapter 11 – Main Points

**11.1** The purpose of this report is to identify the elements of a good environmental management system; to identify key practices of good environmental management; and to describe the roles and responsibilities of the Treasury Board Secretariat and Environment Canada, and results of activities undertaken by them, in identifying and communicating good practices for successfully implementing environmental management systems.

**11.2** The International Organization for Standardization (ISO) defines an environmental management system (EMS) as “that part of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.” A properly designed EMS will provide the framework for practices designed to help an organization manage its environmental agenda and document and communicate its environmental performance. Organizations implementing environmental management systems (EMS) can learn from the practices and experiences of other organizations that have already begun implementing an EMS. This report highlights some of those practices.

**11.3** This Office can also learn from the practices of other organizations. We intend to use the knowledge we have acquired about environmental management systems in our future work on environment and sustainable development issues.

**11.4** Federal departments and agencies are responsible for managing their own environmental risks and responsibilities. To assist and guide federal departments and agencies, the Treasury Board Secretariat issues guidance documents that include policies, directives and guidelines. Departments and agencies then apply that guidance. Environment Canada is responsible for administering legislation related to the environment as well as providing technical assistance to departments and agencies in environmental matters.

**11.5** An organization may decide to pattern its environmental management practices on one of many existing environmental management models. Sound environmental management principles are not different from good management principles. The exact content of a particular management model is not as important as the principles it embodies. One principle-based environmental management systems model that is gaining international acceptance is ISO 14004, currently being drafted by the International Organization for Standardization.

**11.6** The private sector organizations we interviewed were selected on the basis that they had or were likely to have good environmental practices. They were generally further advanced than the federal departments and agencies in implementing comprehensive environmental management systems. Nevertheless, very few of the organizations we interviewed in either the private or the public sector have developed fully all of the elements of an environmental management system. The federal government has taken steps, through initiatives such as the Environmental Accountability Partnership, to improve its environmental management practices.

**11.7** An EMS model provides only the starting point from which to build an effective environmental management system. Continual improvement of the organization’s environmental performance is ultimately what is most important.





# Systems under Development

## Managing the Risks

*Assistant Auditor General: David H. Roth*

*Responsible Auditor: Eric Anttila*

### Chapter 12 – Main Points

**12.1** Organizations today view the successful introduction of technology as being critical to their success. They are looking to the significant potential offered by information technology to reduce costs and improve service. The Canadian federal government is no exception.

**12.2** The implementation of systems development projects, in both the private and public sector, is characterized by risk and uncertainty. Accordingly, it is imperative that the risks be identified, evaluated and effectively managed.

**12.3** We found that only one of the four systems under development that we reviewed — Transport Canada's Integrated Departmental Financial and Materiel Management System (IDFS) — is currently being managed in a way that deals effectively with the risks associated with the project. Of the remaining three, the Public Service Compensation System (PSCS) has been terminated by Public Works and Government Services Canada; the Common Departmental Financial System (CDFS), being developed by Public Works and Government Services Canada, has only a small number of committed users, and the Income Security Program Redesign (ISPR) requires continued corrective action by management of Human Resources Development Canada to reduce project risks.

**12.4** In its attempt to develop PSCS, Public Works and Government Services Canada has spent approximately \$61 million, of the estimated total project cost of \$119.5 million, for which the planned benefits will not be realized.

**12.5** Private sector research indicates, and our own risk assessment supports the view, that the likelihood of large multi-year systems development initiatives being completed on time, within budget and with the desired functionality (what the system should do for its users) in the public and private sectors is extremely low.

**12.6** To improve the likelihood of successfully introducing information technology, the government will need to focus on implementing its long-term information technology strategies through smaller, more manageable components, each of which provides an improved capability (efficiency and/or effectiveness) to the organization.

**12.7** Among the factors critical to managing the risks that affect the successful introduction of information technology are:

- effective project sponsorship by an individual who can ensure that the organization understands and achieves the planned benefits from the systems development project;
- clearly defined functional and system requirements;
- effective user involvement and commitment to the success of the project; and
- the expertise and experience of resources dedicated to the project.

**12.8** Departments and the Treasury Board Secretariat (TBS) have acknowledged the difficulties and risks in delivering large information technology projects, and the Secretariat has undertaken a major review of the factors contributing to the difficulties. TBS is currently working with departments on a variety of changes to project initiation, management and monitoring processes.



*Assistant Auditor General: Richard B. Fadden  
Responsible Auditor: Vinod Sahgal*

## Canadian International Development Agency

### Phased Follow-up of the Auditor General's 1993 Report — Phase I

## Chapter 13 – Main Points

### A New Approach: Phased Follow-up

**13.11** An important element in our work is follow-up of actions taken by departments and agencies in response to concerns raised in our previous Reports. This chapter represents a new and innovative way of reporting to Parliament on how an organization has responded.

**13.12** A three-phased follow-up approach has been designed to reinforce CIDA's accountability to Parliament. An ongoing self-assessment by the Agency on its progress in dealing with concerns raised by the Auditor General is central to this approach. It is intended to foster greater ownership by the Agency of such concerns and a greater commitment to implementing measures to address them.

**13.13** Our opinion on the extent to which CIDA's actions have satisfactorily resolved the concerns raised in our 1993 Report will be rendered in 1997 after all our audit work is complete.

### CIDA's Self-Assessment (Phase I)

**13.14** CIDA has begun a major initiative aimed at transforming the Agency into a more results-oriented, focussed, efficient and accountable organization. The initial focus of this initiative was on management practices. In the Agency's view, progress to date has been significant.

**13.15** Over the next two years, CIDA will concentrate on ensuring that its reforms are translated into program delivery in the field. The Agency is confident that the continuation of renewal will lead to the satisfactory resolution of the main concerns raised by the Auditor General in his 1993 Report.

### Our Comments on Actions Reported by CIDA

**13.16** CIDA's self-assessment report addresses the principal concerns raised in our 1993 Report. The Agency has developed a results-based management concept to strengthen its effectiveness. The clarity with which CIDA has acknowledged its accountability to Parliament for results and the emphasis it is placing on coherence in pursuing the government's priorities in Official Development Assistance are noteworthy.

**13.17** Insightful analysis of Canada's strengths and how they correspond with developing countries' needs, as well as courageous decisions, will continue to be required to achieve the policy objectives set by the government.

**13.18** The need remains for developing a contracting approach that defines the respective accountabilities and risks of both CIDA and its executing agents in the new context of results-based management.

**13.19** There is also a call for greater transparency. Canadians want to be sure that their aid dollars are being used effectively — that their help is making a difference in the lives of people benefiting from Canadian assistance by increasing their self-reliance.

**13.20** It would therefore be timely to accelerate the development of indicators that are simple and usable for measuring and reporting on the Agency's results. Any further delay in this area could well adversely impact on CIDA's credibility. CIDA needs a comprehensive tracking and reporting system to assess the quality and status of its projects.

## Chapter 13 – Main Points (cont'd)

**13.21** The report on Phase II of the “phased follow-up”, due in 1996, will focus on how successfully CIDA has commenced implementing its results-based management concept in the field.

**13.22** In a time of substantial budget cutbacks, it is more important than ever that CIDA be in a position to demonstrate to Parliament which of its channels and program instruments are yielding the best results in achieving those objectives that have the highest priority.





*Assistant Auditor General: Maria Barrados*  
*Responsible Auditor: Gerry Chu*

## Industry Canada

### Business Assistance Programs in Transition

## Chapter 14 – Main Points

**14.1** We audited four financial assistance programs, support to tourism and the Canada Business Service Centre initiative. Significant changes have been made to many of the programs audited.

**14.2** Three financial assistance programs — Microelectronics and Systems Development, Strategic Technologies, and Technology Outreach have been terminated or are not being renewed. The Sector Campaigns were terminated. A new Tourism Commission has been established to take over Industry Canada's existing tourism programming. The commitment to Canada Business Service Centres is continuing and growing.

#### High-Technology Financial Contributions Programs

**14.3** These programs are complex, entailing a long, multistep project approval process. Some of the assessment criteria are difficult to apply. However, improvements can be made in support for funding decisions. Where similar programs are operated by other departments, opportunities exist to improve the co-ordination of review and assessment procedures through sharing information and analysis of results. Progress is being made in developing and reporting performance measurement.

**14.4** Our findings identify ongoing concerns for the management of the remaining program commitments and obligations. They also raise issues of potential importance to many other government programs that provide assistance through contributions. For example, the Department's implementation of the repayable contributions policy needs to be reviewed to ensure that it is consistent with the intent of the policy.

**14.5** There is a risk that, as the government withdraws from some program areas, its remaining obligations will be undermanaged. Even though programs are not being renewed or are being terminated, they retain risks that require management attention. Our audit identified areas where management needs to remain attentive, including ensuring that payments are made only for eligible costs and that contributions repayable to the Crown are managed appropriately.

#### Tourism

**14.6** Industry Canada continued to have difficulties both in developing co-ordinated approaches to the tourism activities and in evaluating the effectiveness of the tourism sub-agreements.

**14.7** The challenge for the newly formed Canadian Tourism Commission will be to develop co-ordinated approaches to the management of these activities and to work closely with other federal departments and agencies to develop co-operative approaches in tourism initiatives.

## Chapter 14 – Main Points (cont'd)

### Canada Business Service Centres (CBSC)

**14.8** This initiative was introduced in 1992–93 to serve business better by creating one access point. In a short period of time, CBSCs have made progress in forming partnerships with federal departments, agencies and provinces, and 10 centres have been established.

**14.9** Judging the success of the CBSC network requires that a clear vision of the concept be articulated. In addition, expectations for the core services to be provided have yet to be defined.

**14.10** The centres are at a key juncture in their development, and must decide quickly with their partners what their long-term vision and strategy should be. The federal government can then in turn more easily determine its most effective contribution to integrating access to business services.



## Public Works and Government Services Canada

### Northumberland Strait Crossing Project

Assistant Auditor General: David Rattray  
Responsible Auditor: Tony Brigandi

## Chapter 15 – Main Points

**15.1** The Northumberland Strait Crossing Project (fixed link) is a large, organizationally complex project with unique financing and project management features. Although cited as a private sector project, the government has significant contractual responsibilities and financial requirements associated with it.

**15.2** The government's intention with the fixed link was to cap and then transfer the subsidy for the present ferry service to the private sector in return for the construction and operation of the bridge; the private sector was to assume most of the project risks. After 35 years, the government would stop the stream of payments to the bondholders, who financed the construction costs, and take over the bridge, facilities, and related operations.

**15.3** Our findings on risk management indicate that the Northumberland Strait Crossing Project shows definite improvement over previous megaprojects, specifically in the protection of the Crown against potential cost overruns and withdrawal of support by private sector contractors, follow-up of environmental requirements, and provision of project information.

**15.4** The procurement process was transparent and reasonable. Technical performance requirements were sorted out early in the process, and three contenders bid on the financial security package and price.

**15.5** The annual transportation subsidy of \$41.9 million (1992 dollars indexed to inflation) that the government agreed to pay to finance the project is at the high end of the range of estimates for the present ferry subsidy.

**15.6** The government played a critical role by enhancing the credit rating of the subsidy bonds to finance construction of the bridge.

**15.7** The financing of the fixed link through a complex off-balance-sheet financing arrangement is a departure from the practice of direct borrowing for the acquisition of infrastructure assets. In present-value terms, we estimate that financing costs could have been reduced by about \$45 million had the government raised this debt through its own borrowing program. The government will need to weigh carefully the costs and benefits of using such off-balance-sheet financing arrangements for any future projects.

**15.8** The security package the government demanded from the developer is comprehensive and should provide adequate protection to the Crown.

**15.9** In our view, the advance income tax rulings that were provided to the consortium did not violate the intent of the *Income Tax Act*.

**15.10** The \$661 million debt to private sector bondholders to finance the construction of the bridge does not appear on the balance sheet of the federal government. At the time of writing, the government was studying the appropriate accounting for and disclosure of the transaction. Preliminary indications are that the government intends to record its interest in this project in the 1994–1995 Public Accounts. The final results of this study, together with observations on it by the Auditor General, will be included in the 1994–95 Public Accounts to be tabled in Parliament later this year.

**15.11** The requirements of the Environmental Assessment and Review Process were met for the fixed link. There is provision for ongoing environmental protection and treatment of emerging problems during construction and operation; and Public Works and Government Services Canada has established an effective oversight process.





## Revenue Canada

### Air Transportation Tax

*Assistant Auditor General: Shahid Minto*

*Responsible Auditor: Jim Ralston*

## Chapter 16 – Main Points

**16.1** The Air Transportation Tax (ATT) was put in place in 1974. For the year ended 31 March 1995, revenue from the tax totalled almost \$589 million. Revenue Canada administers the tax and transfers its proceeds to Transport Canada where they are applied against expenditures for facilities and services provided in respect of air travel.

**16.2** The key administrative memorandum relating to the ATT was issued in 1989 and has not been updated to reflect subsequent amendments to the applicable legislation. In 1993, Revenue Canada started a project to replace the old memorandum with a new document in loose-leaf format to facilitate updating. At this time, only a draft version of the document is available.

**16.3** There is no centre of ATT expertise in Revenue Canada. The Department's headquarters is organized along functional lines, and responsibility for dealing with the 182 air carriers licensed to collect the tax is decentralized in district offices. The low volume of ATT-related workload in most locations affects the Department's ability to maintain the expertise needed to conduct audits and provide rulings or other assistance to air carriers. There is also a risk that air carriers will be treated inconsistently in different regions of the country.

**16.4** Audit coverage has been weak in recent years due to the demands placed on audit resources by the introduction of the Goods and Services Tax. There has been some resurgence of effort recently in some district offices. During the period in which coverage was low, a number of taxation years became "statute barred" (unavailable for audit) for one major carrier. A significant loss of revenue may have resulted.

**16.5** Some large balances of outstanding ATT have become uncollectable due to the financial difficulties experienced by certain air carriers in the years following deregulation of the air transportation industry. The largest part of the dollar value of accounts receivable, which totalled almost \$21 million at 31 March 1995, is represented by 10 air carriers.



# Overview of Regional Economic Development Programs

*Assistant Auditor General: Michael J. McLaughlin*

*Responsible Auditor: Roger Simpson*

## Chapter 17 – Main Points

**17.1** The history of federal initiatives in Canada's regional economic development goes back over thirty years.

**17.2** This overview chapter highlights some general themes from our audits of federal regional economic development programs in four entities. The mandates of the entities are different but all have delivered financial assistance programs to industry. Because the individual chapters (18 to 21) contain more complete descriptions of the entities' respective operating environments and the detailed observations on their programs, readers should review those chapters in order to place this overview chapter in context.

**17.3** Economic disparity among regions is usually defined in terms of differences in personal income, labour force participation and unemployment rates. Differences in per capita income between richer and poorer provinces have narrowed, but still remain.

**17.4** The four entities operate in differing environments and with their own mandates. While it is not easy to consolidate our audit observations on all of them, the entities have some similar operational characteristics. We have some concerns, as explained specifically and in greater detail in the individual chapters. These concerns include:

- a lack of information on which programs have worked and which have not;
- the need for cost-effective, risk-based project assessment;
- lengthy approval times;
- the need for continued co-operation among the entities; and
- the challenge of implementing changes in repayment policies while ensuring a balance between program objectives and collection.

**17.5** In a period of frequent change, the importance of effective program evaluation to assist decision making increases. The present entities are changing their programs in response to various emerging influences, including fiscal restraint. We found the evaluations performed by the entities had significant limitations and in many important areas no evaluations were performed.



# Atlantic Canada Opportunities Agency

*Assistant Auditor General: Wm. F. Radburn*

*Responsible Auditor: John O'Brien*

## Chapter 18 – Main Points

**18.1** The Atlantic Canada Opportunities Agency (the Agency or ACOA) performed extensive evaluations of its two main programs using relevant indicators and an appropriate methodology. Due largely to errors in the data collected and limitations in the assumptions used, the results reported have significant limitations.

**18.2** Our audit of a sample of Action Program and Fisheries Alternatives Program files found that, while basic eligibility requirements were met, there were weaknesses in assessing key economic development criteria such as incrementality, viability and net economic benefit, and weaknesses in monitoring project progress and results.

**18.3** The agreements governing the COOPERATION Program have broad eligibility criteria and objectives that are not clearly linked to program objectives. Information on project activity and results is not maintained in a consistent manner.

**18.4** The Agency has made progress in co-ordinating economic development initiatives with other levels of government in the Atlantic region.





## Federal Office of Regional Development – Quebec

*Assistant Auditor General: Michael J. McLaughlin*  
*Responsible Auditor: Micheline Éthier Massicotte*

### Chapter 19 – Main Points

**19.1** The Federal Office of Regional Development – Quebec (FORD–Q) became a separate department in June 1991. Until 31 March 1995, a major part of its programs were based on a strategy adopted in 1988 by Industry, Science and Technology Canada (now Industry Canada), from which it had emerged.

**19.2** FORD–Q has not set results-oriented operational objectives for each of its programs. It had only a few relevant, useful indicators for monitoring of key aspects of program performance and for periodic evaluation of those programs.

**19.3** Information provided to Parliament is insufficient for assessing the extent to which the Department has attained its objectives, both legislative and operational.

**19.4** FORD–Q has adopted general criteria for analyzing applications for financial assistance. The Department should draw on its experience to improve the analysis of applications; it should adapt this analysis to the size of the contribution, the type of applicant and the nature of the project in order to select the projects most likely to help in achieving its regional development objective.

**19.5** The Department has signed co-operation agreements with other federal departments and agencies to improve synergy among organizations. It has also worked to forge partnerships at a more strategic level.

**19.6** The Department is undertaking a major revamping of its activities. While the development phase for a new activity framework has gone well, major challenges still lie ahead. Successful implementation of the new framework will require a sustained effort by management as well as appropriate mechanisms.



# Western Economic Diversification Canada

*Assistant Auditor General: Don Young*  
*Responsible Auditor: Roger Simpson*

## Chapter 20 – Main Points

**20.1** Western Economic Diversification Canada (WD) has not established specific, measurable objectives for its programs. This greatly reduces its ability to determine and assess results and to account for them.

**20.2** To assess Western Diversification Program (WDP) applications, the Department uses a diversification test that lists criteria for both eligible and ineligible projects. It also considers project viability, the possible impact of the project on competitors within Canada, and the financial need of applicants. The Department's assessment of project viability and impact on competitors is reasonable, given the difficulties involved.

**20.3** The WDP was designed to fund projects that would not proceed without financial assistance. However, the Department defines need more broadly than financial need alone. As a result, WDP assistance has been paid to recipients who have untapped cash or borrowing capacity.

**20.4** The Department has been innovative in making 73 percent of its financial assistance repayable. It has had to address issues such as trade-offs between helping firms and collecting repayment, whether or not to take security, and how aggressively to pursue collections. Other government agencies can learn from WD's operational experiences as they move toward increased repayability.

**20.5** The WDP was designed to top up required project financing after applicants access other government funding. A significant number of Program recipients (54 percent of our audit sample) received funding for the same project from another federal, provincial or municipal government agency.

**20.6** For the 101 WDP projects we examined, we identified 185 specific project objectives. We found that one third of the projects achieved their objectives; one third did not; and it is too early to tell about the remainder. Knowing whether individual projects met their objectives is a necessary but only partial means of gauging Program results as a whole. Whether it is a good indicator depends largely on whether project objectives are consistent with those of the WDP.

**20.7** The Department reports impressive program results to Parliament even though efforts to evaluate its programs have been limited. Of 14 evaluation-type studies, 10 relate to the WDP. Together the 10 provide only limited coverage and limited substantive evaluation of the Program. We found significant problems with the indicators used to report results, and an absence of important qualifiers. The use of simple indicators may draw attention away from the fact that more meaningful program evaluation is absent.



Assistant Auditor General: Maria Barrados

## Industry Canada

### Regional Development Programs

## Chapter 21 – Main Points

**21.1** Industry Canada has responsibility for two funded regional development programs: the Federal Economic Development Initiative in Northern Ontario (FedNor) and the Canada-Quebec Subsidiary Agreements on Industrial Development.

### **Federal Economic Development Initiative in Northern Ontario**

**21.2** Most projects supported by FedNor involve financial contributions of under \$100,000. FedNor needs to streamline its application review and approval process. FedNor officers have had a difficult task applying a common set of assessment criteria and guidelines consistently to every project application, regardless of size and risk. Approval times are longer than expected, on average 90 days against a target of 55 days.

**21.3** The actual benefits achieved by FedNor-supported projects often fall short of the expected economic benefits indicated in project applications. The 1992 evaluation of the program has not provided a high-quality analysis of program results. In addition, the preparation of an evaluation framework for the FedNor Business Incentives Program has not yet been initiated.

### **Canada-Quebec Subsidiary Agreements on Industrial Development**

**21.4** Two subsidiary agreements were established to co-ordinate industrial development measures of the federal government and the government of Quebec. The total federal government funding to the agreements is \$381.25 million. Management and project officers believe that the current administrative process works well with good co-operation between the two levels of government.

**21.5** The two subsidiary agreements include broad objectives but these were not translated into more specific development goals. Also, there were no formally established priorities or development plans as called for in the agreements.

**21.6** Major industrial and infrastructure projects need to meet specific selection criteria to qualify for assistance. However, we found that funding decisions were often not supported by a persuasive analysis of key issues such as economic benefits and incrementality.

**21.7** Appropriate performance measurement is lacking, thus limiting the Department's ability to assess the performance of the agreements.





# Human Resources Development Canada

## Support for Training

Assistant Auditor General: Richard B. Fadden

Responsible Auditor: Louis J. Lalonde

## Chapter 22 – Main Points

**22.1** Human Resources Development Canada (HRDC) supports training mainly by paying course costs and income support for trainees. Expenditures in these areas represented about \$2 billion for 1994–95.

**22.2** Labour market information is important to the effective implementation of the Department's training measures. We have identified only limited information on current demand/supply conditions in the labour market and on occupational shortages/skills gaps.

**22.3** The Department recognizes that improvements are necessary in its ongoing collection of data on training outcomes. These are needed to ensure that reliable information is available to systematically assess and report on performance.

**22.4** Over the years, the Department has relied quite extensively on the results of evaluation studies to track the effects of its training. The majority of the evaluations examined were of acceptable quality within their scope and have provided information the Department has used to improve the cost effectiveness of training measures.

**22.5** Recently, the Department has undertaken several pilot projects to improve the design and delivery of its programs. Especially with respect to projects that might be implemented nation-wide, it is important that evaluations be sufficiently rigorous and be based on adequate labour market information.

**22.6** To complete the emerging picture of the successes or failures resulting from training activities, several important issues need to be further addressed:

- the effectiveness of training activities in meeting the economy's skill needs — one of two key objectives set out in the *National Training Act*;
- the reasons for major differences in the cost effectiveness of training activities among HRDC's regions; and
- interprogram effects of training and other policy measures involving both the federal and provincial levels of government.

**22.7** The Department's evaluation studies demonstrate that training has the potential to produce, and has produced, an improvement in the employability and earnings of many of the workers. However, when training occurs in skills that are surplus to the needs of the economy, trainees' gains may be at the cost of displacing other workers from filling available jobs. This is a key area where the Department needs to undertake analyses and provide information.

**22.8** Targeting training activities at employment opportunities is important. This could assist Canadian workers, including the unemployed, to take full advantage of the job openings available. We are unable to determine from the information provided the extent to which this is occurring.

**22.9** The Department intended to put in place programs to address the needs of both individuals and the economy. We recognize that measuring the impact of training on the earnings and employment potential of individual workers is a valid concern. However, both objectives should be analyzed together and reported upon.





*Assistant Auditor General: Don Young*  
*Responsible Auditor: Nancy Cheng*

## Indian and Northern Affairs Canada

### On-Reserve Capital Facilities and Maintenance

#### Chapter 23 – Main Points

**23.1** The capital facilities and maintenance program activity of Indian and Northern Affairs Canada provides support for Indian and Inuit communities to acquire, operate and maintain basic non-residential facilities across Canada. Many of these communities have experienced rapid population growth, and there are serious backlogs in the provision of public services. The 1994–95 expenditure level of the activity, as shown in the Department's Part III of the Estimates, was about \$570 million.

**23.2** The authority for the activity is broad and general. The objective of the activity, as defined in the Department's Estimates and in its Long-Term Capital Plan, is not adequately supported by operational targets against which performance and results can be measured. As a result, the accountability framework for the activity is weak.

**23.3** Funding for the activity is first allocated to regions and subsequently distributed to First Nations by the regional and district offices of the Department. We found that the method for allocating funds to regions may not achieve the best match of scarce resources with areas of greatest need in First Nations communities. The basis and approach for allocating funds to the regions need to be reviewed and revised.

**23.4** In its approach to devolution, the Department has continued to transfer responsibilities to First Nations for delivering capital and maintenance projects. However, we found that the Department has not targeted and controlled areas of high risk. We noted that the Department's risk and exposure from failure to properly maintain capital assets are high. Moreover, many environmental issues still have to be resolved.

**23.5** In reporting results of the activity, the Department has provided some data on capital facilities and services on reserves but the data do not always present the full status of the conditions and are not related to the objective and targets of the activity. Furthermore, the Department does not have adequate information to assess the annual and the medium-term to long-term progress of the activity. Nor does it have the information to assess the extent to which the activity is addressing the overall objective of achieving parity between capital facilities and services on and off reserves.



*Assistant Auditor General: David Ratray*  
*Responsible Auditor: Michael Weir*

## Revolving Funds in the Parliamentary System

### Financial Management, Accountability and Audit

## Chapter 24 – Main Points

**24.1** A revolving fund is a “revenue re-spending authority.” Once Parliament authorizes a revolving fund for an organizational unit of the government, the managers of that unit can spend its revenues on an ongoing basis for approved purposes and within agreed limits. About \$4.3 billion dollars flow through revolving funds each year. Most of this amount is for internal support services for the government. A small but growing part is for units that serve the public.

**24.2** Treasury Board establishes the policy governing revolving funds. From an accountability and performance perspective, we give the policy a passing grade, but believe that Treasury Board should strengthen it to meet today’s changing requirements.

**24.3** Revolving funds affect performance. They are tools that can do useful work, but they are not a cure-all. Their use can help to improve productivity in the public service and, in conjunction with other appropriate arrangements, can contribute to the achievement of public purposes at reasonable costs. But their use can also create conditions that encourage undesirable side effects such as the subordination of public purposes to unit goals, and perceptions of subjective pricing.

**24.4** We believe that the relevant Treasury Board rules and procedures would provide a better framework for managing these side effects if they were to:

- make public business more transparent through improved disclosure requirements; and
- make the accounting rules governing cost allocations and transfers simpler, clearer and firmer.

Most important, Treasury Board has to find ways to improve oversight over units that operate with revolving funds.

**24.5** Now is a particularly appropriate time for the government to deal with these issues. The government is increasingly using revolving funds for units that serve the public on a cost recovery basis. While the amounts involved are relatively modest, this application shifts the price of programs from the general taxpayer to specific groups of users. Issues that have been of interest only to public servants will increasingly affect many more Canadians.



*Assistant Auditor General: Shahid Minto*  
*Responsible Auditor: Basia Ruta*

## Revenue Canada

### The New Regime for Processing Income Tax Returns

## Chapter 25 – Main Points

**25.1** In the last four years, the method of processing personal income tax returns by Revenue Canada has undergone more restructuring than it had in the preceding thirty years. The Department has replaced traditional manual practices for processing returns with new technologies, and is using different approaches for verifying information reported on returns. Revenue Canada believes that the restructuring has resulted in improved productivity, better service to taxpayers and strengthened system safeguards overall. We note that under the new regime taxpayers receive their refund cheques and/or initial assessments earlier.

**25.2** A major component of the restructuring was the introduction of EFILE, the electronic filing of individual income tax returns. In 1993 we reported on EFILE in its first year of nation-wide implementation. With EFILE returns, taxpayers are not required to submit any supporting documentation unless the Department asks for it, and most of the verification of those returns takes place after refund cheques have been issued. To compensate for the reduction in up-front manual checking of returns prior to initial assessment, the Department scores each return during assessment in an effort to identify non-compliant returns and has instituted new programs to verify returns, largely after assessment, and to monitor trends in voluntary compliance.

**25.3** Continuing with its restructuring initiative, the Department has moved quickly since 1993 to process paper returns in a similar way to EFILE returns. Our overall concern in 1993 was the potential for significant revenue loss to the government should taxpayers' voluntary compliance deteriorate, given the absence of receipts with EFILE returns, limited up-front checking, new and untested compensating verification systems, weak compliance monitoring programs and the lateness of the Department's automated document-matching program to detect other reporting errors or inconsistencies.

**25.4** Two years after carrying out our audit, we continue to be concerned about the readiness of Revenue Canada's systems to contain risks of lost tax revenue in the new environment — concern that now extends to the processing of paper returns. We note, however, that the Department has taken some positive steps to enhance its control environment for matters that deal with EFILE tax preparers specifically. It has also stepped up its efforts to review questionable refunds in order to deal more effectively with fraud.

**25.5** The Department believes that it has put in place a streamlined, technologically advanced system for verifying returns during processing and after assessment. When also considering new programs to monitor taxpayer compliance behaviour, the Department's view is that the new regime results in a more cost-effective and productive approach to processing returns than a regime focussed on traditional methods. However, the Department has been unable to provide us with a substantive analysis to support such a conclusion.

**25.6** In monitoring taxpayer compliance behaviour, inconsistently applied and monitored procedures used by the Department for capturing essential information following its review of taxpayer returns for the 1992 tax year have resulted in incomplete and potentially inaccurate data for that year — the first year of nation-wide implementation of EFILE. Without complete and accurate data for this important benchmark year, the Department has lost an important opportunity to properly monitor and react to changes in voluntary compliance on a timely basis. Moreover, we are concerned about the design of the Department's compliance-monitoring programs. We note that these programs are still not designed to collect the appropriate data for analyzing year-to-year changes in voluntary compliance on a timely basis.



## Chapter 25 – Main Points (cont'd)

**25.7** Despite the data quality problems for tax year 1992, we believe that the data are reasonably useful for making a qualitative assessment of the changes in non-compliance for specific line items on a return. Our analysis of statistics gathered by the Department for tax years 1992 and 1993 suggests a worrisome increase in inaccurate information reported by taxpayers on both EFILE and paper returns, but particularly on EFILE returns. More years of data are required to determine if this movement is temporary or permanent in nature. At the completion of our audit, Revenue Canada had not undertaken any substantive analysis of its statistics.

**25.8** The Department has provided an action plan that is included in Exhibit 25.9 of this Report.



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## Follow-up of Recommendations in Previous Reports

### Chapter 26 – Main Points

**26.1** Departments are taking action to correct deficiencies noted in our previous reports; however, progress is slow in some areas.

**26.2 Department of Environment — The Control and Clean-up of Freshwater Pollution.** The Interdepartmental Committee on Water is responsible for co-ordinating the Federal Water Policy, which requires the integration of river watershed management plans and objectives with those of other resource interests. However, Environment Canada has made little use of the Committee in the development of its ecosystem approach to renewable resource management.

**26.3 Department of Fisheries and Oceans — Northern Cod Adjustment and Recovery Program.** Reducing the dependency on the Atlantic groundfish industry continues to be a challenge. The final evaluation of the Northern Cod Adjustment and Recovery Program, completed in December 1994, estimated that approximately 3,100 of the 26,500 eligible program participants had actually left, or were on a path to exit the fishery. At the start of the Program in July 1992, the Department had expected that about 8,000 fishermen and plant workers would leave the fishery.

**26.4 Department of National Health and Welfare — Programs for Seniors.** Health Canada and Human Resources Development Canada (HRDC) have taken some action on our 1993 recommendations. However, significant work remains to be done in all of the areas identified. HRDC has yet to fully address the recommendations made by the Public Accounts Committee concerning the management of pension programs. Some steps have been taken by HRDC to respond to deficiencies noted that contributed to the overpayment problem. Health Canada has merged and created a focal point for those seniors programs under its responsibility. However, it has yet to complete the evaluation of the Seniors Strategy and provide information on the results of the programs in the Department's Estimates. An evaluation needs to be completed before the scheduled renewal of the Seniors Strategy in 1998.



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## Other Audit Observations

### Chapter 27 – Main Points

**27.1** The *Auditor General Act* requires the Auditor General to include in his annual Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

**27.2** The “Other Audit Observations” chapter fulfils a special role in the annual Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

**27.3** The chapter contains a number of observations concerning departmental expenditures and revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

**27.4** Observations reported cover the following:

- subsidy paid for uneconomic main lines that raises concerns about accountability and transparency of the process used;
- interest not being charged on overdue non-tax receivables; and
- funds reallocated under the Nova Scotia Highway Improvement Program.

**27.5** Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.





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## Chapitre 27 – Points saillants

**27.1** La Loi sur le vérificateur général exige du vérificateur général qu'il inclue dans son rapport annuel les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

**27.2** Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans le Rapport annuel. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des états financiers des sociétés d'Etat et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

**27.3** Le chapitre renferme plusieurs observations qui se rapportent aux dépenses et aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers sans souci de l'économie.

**27.4** Les observations signalées portent sur les sujets suivants :

- une subvention pour l'exploitation de lignes principales non rentables, qui soulève des inquiétudes à propos de l'obligation de rendre compte et du processus utilisé;
  - pas d'intérêt sur les créances non fiscales en souffrance;
  - fonds réaffectés aux termes de l'entente sur l'amélioration des routes de la Nouvelle-Écosse.
- Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.





## Chapitre 26 – Points saillants

26.1 Les ministères prennent des mesures pour donner suite aux recommandations que nous avons formulées dans des rapports antérieurs, mais les progrès sont lents dans certains domaines.

26.2 Ministère de l'Environnement — Réduction de la pollution et assainissement des eaux douces. Le Comité interministériel de l'eau est responsable de la coordination de la Politique fédérale relative aux eaux qui prévoit l'intégration des plans et des objectifs de gestion de l'eau du bassin hydrographique d'un fleuve ou d'une autre unité avec ceux d'autres intérêts en matière de ressources naturelles. Toutefois, Environnement Canada n'a pas beaucoup fait appel au Comité pour élaborer la stratégie sur les écosystèmes qu'il applique à la gestion des ressources renouvelables.

26.3 Ministère des Pêches et des Océans — Le Programme d'adaptation et de redressement de la pêche de la morue du Nord. Réduire la dépendance à l'égard de la pêche des poissons de fond de l'Atlantique demeure un défi. Selon la dernière évaluation du Programme d'adaptation et de redressement de la pêche de la morue du Nord, qui a été réalisée en décembre 1994, environ 3 100 des 26 500 personnes admissibles au Programme avaient bel et bien quitté le secteur de la pêche ou étaient en voie de le quitter. Au moment du lancement du programme, soit en juillet 1992, le Ministère s'attendait à ce qu'environ 8 000 pêcheurs et travailleurs d'usine se retirent du secteur.

26.4 Ministère de la Santé nationale et du Bien-être social — Les programmes pour les aînés. Santé Canada et Développement des ressources humaines Canada (DRHC) ont pris certaines mesures pour donner suite à nos recommandations de 1993. Cependant, il reste beaucoup à faire dans tous les domaines faisant l'objet de nos recommandations. DRHC doit encore donner suite à toutes les recommandations faites par le Comité des comptes publics concernant la gestion des programmes de pensions. Le Ministère a pris certaines mesures pour combler les lacunes qui ont contribué au problème des plus-payés. Santé Canada a fusionné les programmes pour les aînés dont il est responsable et a créé un point de coordination pour ceux-ci. Cependant, il doit encore mener à terme l'évaluation de la Stratégie à l'égard des aînés et fournir de l'information sur les résultats des programmes dans son *Budget des dépenses*. Il doit achever l'évaluation avant la reconduction de la Stratégie, qui est prévue pour 1998.

**25.5** Le Ministère croit avoir mis en place un système rationalisé, et se situant à la fine pointe de la technologie, pour vérifier les déclarations au cours du traitement et après l'établissement de la cotisation. Si l'on ajoute à cela les nouveaux programmes par lesquels il entend surveiller le comportement des contribuables en matière d'observation, le Ministère juge que le nouveau régime se traduit par un traitement des déclarations plus productif et plus rentable que n'importe quel régime axé sur les méthodes classiques. Toutefois, le Ministère a été incapable de nous fournir une analyse approfondie pour corroborer une telle conclusion.

**25.6** Dans le cadre de la surveillance du comportement des contribuables en matière d'observation, le manque d'uniformité dans l'application et le suivi de la procédure ministérielle de saisie de l'information pertinente, après l'examen des déclarations pour l'année d'imposition 1992, a eu pour conséquence la collecte de données incomplètes et, peut-être, inexactes pour cette année, celle-là même au cours de laquelle a eu lieu la mise en oeuvre de la TED à l'échelle nationale. En raison de l'absence de données exactes et complètes pour cette année de référence significative, le Ministère a été privé d'une importante opportunité de repérer comme il se doit et sans délai les changements en matière d'observation volontaire et d'instaurer les correctifs nécessaires en temps opportun. Nous avons, en outre, des réserves quant à la conception des programmes ministériels de surveillance de l'observation. Nous constatons que ces programmes ne comportent toujours pas de mécanisme de saisie des données qui permettraient d'analyser en temps opportun les changements qui surviennent d'année en année sur le plan de l'observation volontaire.

**25.7** En dépit des problèmes de qualité dans les données statistiques de l'année d'imposition 1992, nous croyons que ces données sont néanmoins raisonnablement utiles pour effectuer une évaluation qualitative des changements survenus dans l'observation de la loi en ce qui a trait à des éléments particuliers des déclarations. Notre analyse des données statistiques recueillies par le Ministère au cours des années d'imposition 1992 et 1993 semble indiquer une augmentation inquiétante de l'inexactitude des renseignements fournis par les contribuables dans les déclarations sur support papier, et plus encore dans celles produites par voie électronique. Il faut des données sur d'autres années d'imposition pour déterminer si ce mouvement est de nature temporaire ou permanente. Au moment où s'achevait notre vérification, Revenu Canada n'avait entrepris aucune analyse approfondie de ses statistiques.

**25.8** Le Ministère nous a fourni un plan d'action qui figure à la pièce 25.9 du présent chapitre.

# Revenu Canada

## Le nouveau régime de traitement des déclarations de revenus

Vérificateur général adjoint : Shahid Minto  
Vérificatrice responsable : Basia Ruta



## Chapitre 25 – Points saillants

**25.1** Au cours des quatre dernières années, le traitement des déclarations de revenus a été remanié plus en profondeur qu'au cours des trente années précédentes. Le Ministère a remplacé par des technologies nouvelles les procédés manuels de traitement des déclarations qu'il utilisait auparavant, et il a recouru à des méthodes différentes pour vérifier les renseignements fournis dans les déclarations. Revenu Canada croit que, en restaurant le traitement, il a accru sa productivité, amélioré son service aux contribuables et globalement haussé la sécurité et la fiabilité de ses systèmes. Nous avons constaté qu'avec le nouveau régime, les contribuables reçoivent plus rapidement leur chèque de remboursement ou leur avis de cotisation initiale.

**25.2** Une des réalisations importantes de la restructuration a consisté à mettre en place la transmission électronique des déclarations de revenus des particuliers (TED). En 1993, nous avions parlé, dans notre rapport, de la TED qui en était à sa première année de mise en oeuvre à l'échelle nationale. Lorsque la déclaration est transmise par voie électronique, le contribuable n'est pas tenu de soumettre les pièces justificatives à Revenu Canada, sauf si le Ministère le lui demande. La plupart des procédures de vérification dont la déclaration fait l'objet ont lieu après l'envoi du chèque de remboursement. Afin de compenser la diminution dans les contrôles manuels avant traitement dont les déclarations font l'objet avant l'établissement de la cotisation initiale, le Ministère cote chaque déclaration au cours de l'établissement de la cotisation en vue de repérer les déclarations non conformes, et il a mis sur pied de nouveaux programmes lui permettant de vérifier les déclarations, majoritairement après l'établissement de la cotisation, et de surveiller les tendances dans l'observation volontaire.

**25.3** Dans le cadre de son initiative de restructuration, le Ministère a procédé rapidement depuis 1993 afin de traiter les déclarations sur support papier de façon similaire aux déclarations TED. En 1993, notre préoccupation générale était la possibilité que l'Etat perde des recettes considérables si l'observation volontaire de la loi par les contribuables venait à se détériorer à cause des raisons suivantes : absence de reçus dans les déclarations TED, vérification restreinte avant traitement, recours à des systèmes de vérification compensatoires nouveaux et non éprouvés, lacunes constatées dans les programmes de surveillance de l'observation et retard avec lequel le programme de rapprochement automatisé des documents du Ministère permettait de déceler d'autres erreurs ou discordances.

**25.4** Deux ans après notre vérification de la TED, nous nous préoccupons toujours de savoir si les systèmes de Revenu Canada sont de nature à limiter, dans le nouvel environnement, les risques de perte de recettes fiscales. De plus, notre inquiétude s'étend maintenant au traitement des déclarations sur support papier. Nous avons toutefois pu observer que le Ministère a pris quelques mesures concrètes pour améliorer ses mécanismes de contrôle, notamment en ce qui a trait aux préparateurs de déclarations TED. Il a en outre intensifié ses activités d'examen des demandes de remboursement douteuses en vue de mieux contrôler la fraude fiscale.



# Les fonds renouvelables dans le régime parlementaire

## Gestion financière, responsabilité et vérification

Vérificateur général adjoint : David Rattray  
Vérificateur responsable : Michael Weir



## Chapitre 24 – Points saillants

**24.1** Un fonds renouvelable est un « pouvoir permanent de dépenser des recettes ». Une fois que le Parlement autorise l'établissement d'un fonds renouvelable pour un service organisationnel du gouvernement, les gestionnaires de ce service peuvent continuer d'en dépenser les recettes en permanence à des fins approuvées et dans des limites convenues. Près de 4,3 milliards de dollars sont administrés au moyen de fonds renouvelables chaque année. La plus grande partie de ce montant est affectée à des services de soutien internes du gouvernement. Une autre partie, petite mais en croissance, est affectée à des services destinés au public.

**24.2** Le Conseil du Trésor établit la politique sur les fonds renouvelables. Du point de vue de la reddition des comptes et du rendement, nous donnons à la politique la note de passage, mais nous pensons que le Conseil du Trésor devrait la renforcer pour répondre aux besoins changeants d'aujourd'hui.

**24.3** Les fonds renouvelables influent sur le rendement. Ce sont des outils qui ont leur utilité, mais ils ne sont pas une panacée. Leur utilisation peut améliorer la productivité dans la fonction publique et, jumelée à d'autres arrangements appropriés, peut aider à atteindre des objectifs d'intérêt public à des coûts raisonnables. Mais il arrive que leur utilisation crée des situations qui ont des effets indirects indésirables, notamment la subordination d'objectifs d'intérêt public aux buts de tel ou tel service et l'impression que l'établissement des prix est subjectif.

**24.4** À notre avis, les règles et procédures pertinentes du Conseil du Trésor offriraient un meilleur cadre de gestion de ces effets indirects, dans la mesure où elles :

- rendraient plus transparentes les activités d'intérêt public par une obligation d'information accrue;
- simplifieraient et rendraient plus claires et plus fermes les règles régissant la comptabilisation des affectations des coûts et des transferts.

Par-dessus tout, le Conseil du Trésor doit trouver des moyens de mieux surveiller les services qui fonctionnent avec des fonds renouvelables.

**24.5** Il est particulièrement approprié que le gouvernement s'occupe de ces questions en ce moment. Le gouvernement recourt de plus en plus aux fonds renouvelables pour les services qui desservent le public selon la formule du recouvrement des coûts. Bien que les montants en cause soient relativement peu élevés, ce recours aux fonds renouvelables fait payer le prix des programmes par des groupes d'utilisateurs précis plutôt que par les contribuables en général. Des questions qui n'ont jusqu'ici concerné que les fonctionnaires auront de plus en plus de répercussions sur l'ensemble des Canadiens.





## Chapitre 23 – Points saillants

**23.1** Dans le cadre de l'activité du Programme des immobilisations et de l'entretien, le ministère des Affaires indiennes et du Nord canadien fournit des fonds aux collectivités indiennes et inuit afin de leur permettre d'acheter, d'exploiter et d'entretenir des installations de base autres que résidentielles, d'un bout à l'autre du Canada. Beaucoup de ces collectivités ont connu une croissance démographique rapide, de sorte qu'elles souffrent d'arrière-pensées importantes dans le domaine des services publics. Comme l'indiquent la Partie III du *Budget des dépenses* du Ministère, le niveau de dépenses de cette activité en 1994-1995 était d'environ 570 millions de dollars.

**23.2** L'autorisation régissant cette activité est étendue et générale. L'objectif de l'activité, tel qu'il est défini dans le *Budget des dépenses* du Ministère et dans le plan d'immobilisations à long terme, n'est pas appuyé adéquatement par des buts opérationnels qui permettent de mesurer le rendement et les résultats obtenus. Le cadre de reddition des comptes pour l'activité est donc faible.

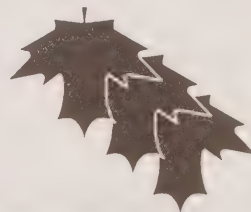
**23.3** Les fonds affectés à l'activité sont d'abord alloués aux régions, puis distribués aux Premières nations par les bureaux régionaux et les bureaux de district du Ministère. Nous avons constaté que la méthode utilisée pour répartir les fonds parmi les régions n'est peut-être pas la plus appropriée pour attribuer les rares ressources disponibles aux secteurs des collectivités des Premières nations présentant les plus grands besoins. Il faut donc revoir et modifier les fondements et l'approche utilisés pour l'allocation des fonds aux régions.

**23.4** En vertu de sa politique de transfert des programmes, le Ministère a continué de confier aux Premières nations la responsabilité de l'exécution des projets d'immobilisations et d'entretien. Nous avons toutefois observé qu'il n'a pas établi d'objectifs ni de contrôles pour les secteurs à risques élevés. En outre, nous avons constaté qu'il était exposé à des risques importants si l'entretien des biens immobiliers n'est pas assuré de façon appropriée. De plus, beaucoup de problèmes environnementaux n'ont pas encore été réglés.

**23.5** Dans ses rapports sur les résultats remis dans le cadre de l'activité, le Ministère a fourni des données sur les immobilisations et les services offerts dans les réserves; toutefois, ces données ne donnent pas toujours une image complète des conditions existantes et elles ne sont pas rattachées à l'objectif général et aux autres objectifs de l'activité. De plus, le Ministère ne possède pas suffisamment de renseignements pour évaluer les progrès annuels et la mise en œuvre à moyen ou à long terme de l'activité. Il ne dispose pas non plus de renseignements pour évaluer dans quelle mesure l'activité permet de répondre à l'objectif général de partir des installations et des services des réserves avec ceux de l'extérieur.

**22.8** Il importe de cibler les activités de formation en fonction des possibilités d'emploi. Cela aiderait les travailleurs canadiens, y compris ceux qui sont sans emploi, à profiter pleinement des débouchés qui se présentent sur le marché du travail. Nous n'avons pas été en mesure de déterminer, à partir de l'information dont nous disposons, dans quelle mesure cela se produit.

**22.9** Le Ministère se proposait de mettre en place des programmes pour se pencher sur les besoins et des travailleurs et de l'économie. Nous admettons que la mesure des répercussions de la formation sur les revenus et l'emploi potentiel des travailleurs constituent une préoccupation valable. Il faudrait toutefois analyser conjointement les deux objectifs et en faire rapport.



## Chapitre 22 – Points saillants

**22.1** Développement des ressources humaines Canada (DRHC) apporte son soutien à la formation en assumant principalement les frais de cours et en assurant le soutien du revenu des personnes en formation. Les dépenses à ce chapitre se sont élevées à quelque deux milliards de dollars en 1994-1995.

**22.2** L'information relative au marché du travail occupe une place importante dans l'instauration efficace de mesures relatives à la formation par le Ministère. Nous n'avons relevé que peu d'information sur les conditions qui prévalent en ce qui concerne l'offre et la demande sur le marché du travail et les pénuries de main-d'œuvre qualifiée ou les écarts dans les compétences.

**22.3** Le Ministère reconnaît la nécessité d'apporter des améliorations au processus de collecte continue de données sur les résultats de la formation. Ces améliorations s'imposent dans la mesure où l'on doit compter sur une information fiable pour procéder à l'évaluation systématique du rendement et en faire rapport.

**22.4** Au fil des ans, le Ministère s'est fié dans une très large mesure aux résultats des études d'évaluation pour situer les répercussions de ses programmes de formation. La grande majorité des évaluations qui ont été examinées se sont avérées de qualité acceptable, compte tenu de leur portée. Elles ont permis de recueillir des données dont le Ministère s'est servi pour accroître la rentabilité des méthodes de formation.

**22.5** Le Ministère a amorcé récemment plusieurs projets pilotes afin d'améliorer la conception et la mise en œuvre de ses programmes. En ce qui concerne particulièrement les projets qui pourraient être instaurés à l'échelle nationale, il importe que les évaluations soient suffisamment rigoureuses et soient fondées sur une information appropriée sur le marché du travail.

**22.6** Pour compléter le tableau des réussites et des échecs qui découlent des activités de formation, il faudra approfondir plusieurs questions importantes :

- l'efficacité des activités de formation par rapport aux besoins de l'économie en matière de main-d'œuvre qualifiée — ce qui constitue l'un des deux principaux objectifs définis dans la *Loi nationale sur la formation*;
- les raisons des écarts considérables entre les régions de Développement des ressources humaines Canada sur le plan de la rentabilité des activités de formation;
- les répercussions entre les programmes en ce qui concerne la formation et d'autres mesures gouvernementales, y compris les deux paliers de gouvernement fédéral et provincial.

**22.7** Les études d'évaluation du Ministère démontrent que la formation est susceptible, et elle l'a déjà fait, d'améliorer l'employabilité et d'accroître la rémunération d'un grand nombre de travailleurs. Toutefois, lorsque la formation reçue touche des compétences qui sont excédentaires par rapport aux besoins de l'économie, il arrive que les gains réalisés par les personnes qui en ont bénéficié se fassent au détriment d'autres travailleurs qui occupent déjà les emplois disponibles. C'est là un secteur clé où le Ministère doit mener des analyses et fournir de l'information.





## Chapitre 21 – Points saillants

**21.1** Industrie Canada assume la responsabilité de deux programmes fédéraux de développement régional : l'Initiative fédérale de développement économique dans le Nord de l'Ontario (FedNor) et les Ententes auxiliaires Canada-Québec sur le développement industriel.

### Initiative fédérale de développement économique dans le Nord de l'Ontario

**21.2** La plupart des projets financés par FedNor visent des contributions financières de moins de 100 000 dollars. FedNor doit rationaliser son processus d'examen et d'approbation des demandes. Les agents de FedNor ont éprouvé de la difficulté à appliquer de manière uniforme un ensemble commun de critères et de lignes directrices pour l'évaluation de toutes les demandes relatives à des projets, quels qu'en soient la taille et le risque. Les délais d'approbation sont plus longs que prévu, soit en moyenne 90 jours par rapport à un objectif de 55 jours.

**21.3** Il arrive souvent que les avantages réels produits par les projets financés par FedNor ne correspondent pas aux avantages économiques prévus dans les demandes. En 1992, l'évaluation du programme n'a pas comporté d'analyse qualitative rigoureuse des résultats. En outre, la préparation d'un cadre d'évaluation pour le Programme d'encouragement aux entreprises — FedNor n'a pas encore débuté.

### Ententes auxiliaires Canada-Québec sur le développement industriel

**21.4** Deux ententes auxiliaires ont été établies pour coordonner les mesures de développement industriel du gouvernement fédéral et du gouvernement du Québec. Les fonds fédéraux affectés aux ententes s'élèvent à 381,25 millions de dollars. La direction et les agents de projet sont d'avis que le processus administratif actuel fonctionne bien et qu'il y a une coopération étroite entre les deux paliers de gouvernement.

**21.5** Les deux ententes auxiliaires comportent des objectifs généraux, mais ils n'ont pas été transposés en objectifs de développement plus précis. De plus, il n'y avait pas de priorités ou de plans de développement établis officiellement, tel que l'exigent les ententes.

**21.6** Les projets industriels de grande envergure et les projets d'infrastructure doivent satisfaire à des critères de sélection précis pour être admissibles à l'obtention d'aide. Cependant, nous avons constaté que souvent les décisions en matière de financement ne reposaient pas sur une analyse convaincante de questions clés comme les retombées économiques et l'effet d'accroissement.

**21.7** Le manque d'information appropriée sur le rendement limitait la capacité du Ministère d'évaluer l'efficacité des ententes.



20.7 Dans son rapport au Parlement, le Ministère fait état de résultats impressionnants pour ses programmes, bien que ses efforts visant à les évaluer aient été limités. Sur 14 études de type évaluation, dix se rapportent au Programme de diversification de l'économie de l'Ouest. Prises dans leur ensemble, les dix évaluations ne constituent qu'une couverture limitée et elles donnent lieu à une évaluation substantielle restreinte du Programme. Nous avons constaté que les indicateurs utilisés dans le compte rendu des résultats comportaient d'importants problèmes, et que ces comptes rendus n'étaient pas assortis de certaines réserves importantes. L'utilisation d'indicateurs simples peut masquer le fait que les programmes ne sont pas évalués de façon plus significative.



Vérificateur général adjoint : Don Young  
Vérificateur responsable : Roger Simpson

## Chapitre 20 – Points saillants

**20.1** Diversification de l'économie de l'Ouest Canada (DEO) n'a pas établi d'objectifs précis et mesurables pour ses programmes. Cela réduit grandement sa capacité de déterminer et d'évaluer les résultats, et d'en rendre compte.

**20.2** Afin d'évaluer les demandes présentées au Programme de diversification de l'économie de l'Ouest (PDEO), le Ministère utilise un test de diversification dont les critères lui permettent de déterminer si un projet est admissible ou non. Il évalue également la viabilité du projet, ses répercussions possibles sur les concurrents au Canada, ainsi que les besoins financiers du requérant. L'évaluation que le Ministère fait de la viabilité d'un projet et de ses retombées sur les concurrents est raisonnable, compte tenu des difficultés en cause.

**20.3** Le Programme a été conçu pour financer les projets qui ne pourraient aller de l'avant sans aide. Toutefois, la définition que le Ministère donne au terme « besoin » dépasse les seuls besoins financiers. C'est pourquoi le Programme a fourni une aide à des bénéficiaires dont les liquidités et la capacité d'emprunt sont inexistantes.

**20.4** Le Ministère a innové en exigeant le remboursement de 73 p. 100 de son aide financière. Il a dû aussi prendre en considération d'autres questions, notamment les compromis à faire entre les entreprises et recouvrer les sommes remboursables, exiger ou non un cautionnement et décider avec quelle fermeté il fallait recouvrer les sommes exigibles. D'autres organismes gouvernementaux qui se dirigent eux aussi vers une politique plus axée sur le remboursement peuvent profiter de l'expérience opérationnelle de Diversification de l'économie de l'Ouest Canada.

**20.5** Le Ministère a été conçu pour suppléer au financement requis pour un projet après que les requérants aient eu accès à un autre financement gouvernemental. Un nombre important de bénéficiaires du Programme (54 p. 100 de l'échantillon vérifié) ont reçu, pour un même projet, des fonds provenant d'un autre organisme fédéral, provincial ou municipal.

**20.6** En ce qui concerne les 101 projets liés au Programme de diversification de l'économie de l'Ouest que nous avons examinés, nous avons relevé 185 objectifs de projet précis. Nous avons constaté qu'un tiers de ces projets avaient atteint leurs objectifs et qu'un tiers ne l'avaient pas fait; et il est trop tôt pour nous prononcer sur le reste. Savoir qu'un projet donne atteint ses objectifs est un outil nécessaire, mais incomplet, pour évaluer les résultats de l'ensemble du Programme. Cet indicateur est pertinent dans la mesure où les objectifs du projet sont conformes à ceux du Programme.



## Chapitre 19 – Points saillants

- 19.1 Le Bureau fédéral de développement régional (Québec) (BFD[RQ]) est devenu un ministère distinct en juin 1991. Jusqu'au 31 mars 1995, une grande partie de sa programmation était fondée sur la stratégie adoptée en 1988 par le ministère de l'Industrie, des Sciences et de la Technologie (aujourd'hui Industrie Canada) dont il est issu.
- 19.2 Le BFD[RQ] ne s'est pas fixé d'objectifs opérationnels orientés vers l'atteinte de résultats pour chacun de ses programmes. Il n'avait que peu d'indicateurs pertinents et utiles pour effectuer un suivi des aspects clés du rendement de ses programmes et en faciliter l'évaluation périodique.
- 19.3 L'information destinée au Parlement n'est pas suffisante pour lui permettre d'évaluer dans quelle mesure le Ministère a atteint ses objectifs tant législatifs qu'opérationnels.
- 19.4 Le BFD[RQ] s'est doté de critères généraux pour l'analyse des demandes d'aide financière. Le Ministère devrait mettre à profit son expérience pour améliorer l'analyse des demandes et l'adapter en fonction de l'importance de la contribution, du type de requérant ou de la nature du projet, afin de sélectionner les projets les plus susceptibles de l'aider à atteindre son objectif de développement régional.
- 19.5 Le Ministère a signé des ententes de coopération avec d'autres organismes fédéraux afin d'augmenter la synergie entre les organisations. Il a également travaillé à l'établissement d'un partenariat à un niveau plus stratégique.
- 19.6 Le Ministère procède à un changement majeur de ses activités. La phase d'élaboration du nouveau cadre de ses activités s'est bien déroulée, mais il reste encore d'importants défis à relever. Un effort soutenu de la part de la direction et des mécanismes appropriés sont nécessaires pour une mise en oeuvre réussie.



## Chapitre 18 – Points saillants

**18.1** L'Agence de promotion économique du Canada atlantique (l'Agence ou l'APECA) a effectué des évaluations approfondies de ses deux principaux programmes à l'aide d'indicateurs pertinents et d'une méthodologie appropriée. En raison, en grande partie, d'erreurs dans les données recueillies et des limitations inhérentes aux hypothèses retenues, les résultats communiqués présentent d'importantes lacunes.

**18.2** Notre vérification d'un échantillon des dossiers des programmes Action et Diversi-pêches a révélé que, si les conditions fondamentales d'admissibilité étaient respectées, il apparaissait des faiblesses pour ce qui est de l'évaluation de critères clés de développement économique, comme le besoin d'aide, la viabilité et les retombées économiques nettes, ainsi que des faiblesses sur le plan de la surveillance de l'évolution des projets et de leurs résultats.

**18.3** Les accords qui régissent le Programme de COOPERATION comportent de larges critères d'admissibilité et des objectifs qui ne sont pas clairement liés aux objectifs du programme. On ne conserve pas de manière cohérente l'information sur les activités qui relèvent des projets et sur leurs résultats.

**18.4** L'Agence a fait des progrès en ce qui concerne la coordination des initiatives de développement économique avec d'autres paliers de gouvernement dans la région de l'Atlantique.





## Chapitre 17 – Points saillants

**17.1** Les initiatives fédérales en matière de développement économique régional datent de plus de 30 ans.

**17.2** Le présent chapitre donne un aperçu de certains grands thèmes des vérifications des programmes fédéraux de développement économique régional que nous avons effectués dans quatre entités. Bien que les mandats des entités diffèrent, ils prévoient tous des programmes d'aide financière destinés au secteur industriel. Comme les chapitres 18 à 21 comprennent des descriptions plus détaillées de l'environnement opérationnel de chaque entité et des observations détaillées sur leurs programmes, les lecteurs sont invités à les lire afin de replacer le présent chapitre en contexte.

**17.3** On définit habituellement les disparités économiques entre les régions en fonction des écarts au niveau du revenu personnel, du taux d'activité de la population active et du taux de chômage. Bien que les disparités entre le revenu par habitant des provinces les plus riches et des provinces les plus pauvres aient diminué, elles existent toujours.

**17.4** Les quatre entités fonctionnent dans des environnements différents et selon leur propre mandat. Même s'il n'est pas facile de regrouper nos observations sur toutes ces entités, ces dernières présentent des caractéristiques opérationnelles semblables. Nous avons certaines inquiétudes, comme nous l'expliquons précisément et de façon détaillée dans les chapitres individuels. Ces inquiétudes portent notamment sur :

- le manque d'information sur les programmes qui ont fonctionné et sur ceux qui n'ont pas fonctionné;
- le besoin de faire des évaluations de projet rentables et axées sur les risques;
- la longueur des délais d'approbation;
- la nécessité d'une coopération continue entre les entités;
- la difficulté d'appliquer les modifications apportées aux politiques de remboursement tout en maintenant l'équilibre entre les objectifs des programmes et le recouvrement.

**17.5** En période de changements fréquents, il est encore plus important d'avoir une évaluation de programme efficace qui contribue à la prise des décisions. Les entités visées modifient leurs programmes en réaction à diverses influences nouvelles, y compris les compressions budgétaires. Nous avons constaté que les évaluations effectuées par les entités étaient très limitées et que dans beaucoup de secteurs importants, elles faisaient totalement défaut.



Vérificateur général adjoint : Shahid Minto  
Vérificateur responsable : Jim Ralston

## Chapitre 16 – Points saillants

**16.1** La taxe de transport aérien (TTA) a été instituée en 1974. Pour l'exercice se terminant le 31 mars 1995, les recettes provenant de cette taxe ont presque atteint 589 millions de dollars. Revenu Canada applique la taxe et il en verse le produit à Transports Canada, qui utilise ce produit pour compenser le coût des installations et des services offerts dans le domaine du transport aérien.

**16.2** Le principal document d'application portant sur la TTA est un « mémorandum » qui date de 1989 et qui n'a pas été mis à jour conséquemment aux modifications apportées aux dispositions législatives pertinentes. En 1993, Revenu Canada a entrepris de remplacer l'ancien mémorandum par un document nouveau, qui consistera en feuillets mobiles pour une mise à jour plus facile. Le nouveau document n'existe maintenant que sous forme d'ébauche.

**16.3** Il n'existe à Revenu Canada aucun noyau d'expertise en TTA. L'Administration centrale du Ministère est structurée selon les responsabilités fonctionnelles, tandis que la responsabilité de traiter avec les 182 transporteurs aériens titulaires d'une licence pour percevoir la taxe est décentralisée et incombe aux bureaux de district. En raison du faible volume de travail ayant trait à la TTA dans la plupart des bureaux, le Ministère peut difficilement maintenir l'expertise nécessaire pour effectuer des vérifications, pour rendre des décisions à l'intention des transporteurs aériens ainsi que pour leur apporter d'autres formes d'aide. De plus, le Ministère risque ainsi de traiter les transporteurs aériens différemment selon la région du pays.

**16.4** L'étendue de la vérification de la TTA a été faible ces dernières années en raison de la forte demande exercée sur les ressources de vérification par l'entrée en vigueur de la taxe sur les produits et services. Certains bureaux de district ont récemment intensifié les efforts déployés pour vérifier la TTA. Au cours de la période où l'étendue de la vérification de la TTA atteignait de bas niveaux, un certain nombre d'années d'imposition sont devenues « trappées de prescription » (c'est-à-dire qu'elles ne peuvent plus faire l'objet d'une vérification) dans le cas d'un transporteur important. Cela peut avoir entraîné une perte de recettes considérable.

**16.5** Des soldes importants de TTA impayée sont devenus irrécouvrables à cause des difficultés financières que certains transporteurs aériens ont éprouvées dans les années suivant la déréglementation du transport aérien. La valeur des créances au titre de la TTA atteignait presque 21 millions de dollars le 31 mars 1995, et la majeure partie de cette somme consistait en dettes de seulement 10 transporteurs aériens.

- 15.10** Les 661 millions de dollars dus aux obligataires du secteur privé pour financer la construction du pont ne figurent pas au bilan du gouvernement fédéral. Au moment de la rédaction de notre rapport, le gouvernement étudiait quelle méthode de comptabilité et de présentation convenait pour cette transaction. Selon des indications préliminaires, le gouvernement a l'intention de signaler son obligation à l'égard de ce projet dans les Comptes publics de 1994-1995. Les résultats définitifs de cette étude, ainsi que les observations du vérificateur général à ce sujet, seront inclus dans les Comptes publics de 1994-1995 qui seront présentés au Parlement plus tard dans l'année.
- 15.11** Le pont satisfait aux exigences du processus d'évaluation et d'examen en matière d'environnement. Des dispositions sont prévues pour protéger l'environnement et régler les problèmes au cours de la construction et de l'exploitation du pont. Travaux publics et Services gouvernementaux Canada a établi un processus de surveillance efficace.



Vérificateur général adjoint : David Rattray  
Vérificateur responsable : Tony Brigand

## Chapitre 15 – Points saillants

**15.1** Le projet de raccordement dans le détroit de Northumberland (raccordement permanent) est un grand projet complexe, dont les caractéristiques financières et de gestion sont uniques. Même s'il a été dit qu'il s'agit d'un projet du secteur privé, le gouvernement a d'importantes responsabilités contractuelles et obligations financières à cet égard.

**15.2** L'intention du gouvernement était de façonner la subvention accordée pour le service de traversiers actuel et de la transférer au secteur privé qui devait, en contrepartie, construire et exploiter le pont; le secteur privé devait assumer la plupart des risques du projet. Après 35 ans, le gouvernement cesserait de verser des paiements aux obligataires ayant financé les coûts de construction et reprendrait le pont, les installations et les opérations connexes.

**15.3** Selon nos constatations sur la gestion du risque, le projet de raccordement dans le détroit de Northumberland constitue une nette amélioration par rapport aux mégaprojets antérieurs, surtout du point de vue de la protection de l'État contre les dépassements de coûts possibles et le retrait de l'appui des entrepreneurs du secteur privé, du suivi des exigences environnementales et de la présentation d'information sur le projet.

**15.4** Le processus d'approvisionnement a été transparent et raisonnable. Les exigences de rendement technique ont été définies clairement dès le début du projet; trois soumissionnaires ont présenté une proposition de garanties financières et de prix.

**15.5** La subvention annuelle au transport de 41,9 millions de dollars (dollars de 1992, indexés sur l'inflation) que le gouvernement a convenu de payer pour financer le projet, se situe à la limite supérieure du montant prévu pour la subvention accordée actuellement au service de traversiers.

**15.6** Le gouvernement a joué un rôle important en haussant la cote de crédit des garanties de subventions nécessaires pour financer la construction du pont.

**15.7** Les dispositions hors-bilan complexes sont un moyen inhabituel de financement par rapport à l'emprunt direct généralement utilisé pour l'acquisition d'infrastructures. Du point de vue de la valeur actuelle, nous considérons que les coûts de financement auraient pu être inférieurs d'environ 45 millions de dollars si le gouvernement s'était procuré l'argent nécessaire en ayant recours à son propre programme d'emprunt. Le gouvernement devra examiner attentivement les coûts et les avantages du recours à ce mode de financement hors-bilan pour tout projet futur.

**15.8** Les garanties exigées du promoteur par le gouvernement sont exhaustives et devraient suffire à protéger l'État de façon adéquate.

**15.9** À notre avis, les décisions anticipées en matière d'impôt données au consortium ne sont pas contraires à l'esprit de la Loi de l'impôt sur le revenu.



Tourisme

- 14.6** Industrie Canada a continué d'éprouver des difficultés quand il s'est agi d'élaborer des approches coordonnées à l'égard des activités reliées au tourisme et d'évaluer l'efficacité des ententes auxiliaires dans ce domaine.
- 14.7** Pour la Commission canadienne du tourisme, nouvellement créée, le défi consistera à élaborer des approches coordonnées pour la gestion de ces activités et à travailler en étroite collaboration avec d'autres ministères et organismes fédéraux en vue d'élaborer des approches concertées dans le cadre des initiatives concernant le tourisme.

Centres de services aux entreprises du Canada (CSEC)

- 14.8** L'initiative des Centres de services aux entreprises du Canada a été lancée en 1992-1993 dans le but de mieux servir les entreprises grâce à la mise en place d'un guichet unique. Les CSEC n'ont pas tardé à accomplir des progrès en établissant des partenariats avec des ministères et organismes fédéraux ainsi qu'avec les provinces, et dix centres ont été créés.
- 14.9** Pour évaluer le succès du réseau des CSEC, il faut formuler une vision claire de ce concept. En outre, le Ministère n'a pas encore déterminé les attentes quant aux services de base que doivent offrir les CSEC.
- 14.10** Les Centres en sont à une étape clé de leur évolution et doivent décider rapidement, de concert avec leurs partenaires, quelles seront leur vision et leur stratégie à long terme. Le gouvernement fédéral pourra ensuite déterminer avec une plus grande facilité de quelle manière il contribuera le plus efficacement possible à la centralisation de l'accès aux services aux entreprises.



## Chapitre 14 – Points saillants

**14.1** Nous avons vérifié quatre programmes d'aide financière, le soutien du tourisme et l'initiative des Centres de services aux entreprises du Canada. Bon nombre des programmes vérifiés ont fait l'objet de modifications importantes.

**14.2** Trois programmes d'aide financière, à savoir Microélectronique et développement des systèmes, Technologies stratégiques et Mise en valeur de la technologie, ont pris fin ou ne sont pas reconduits. Les Campagnes sectorielles en sont aussi à leur terme. La Commission canadienne du tourisme a été créée pour prendre en charge les programmes existants d'Industrie Canada dans le domaine du tourisme. Le Ministère déploie de plus en plus d'efforts pour mener à bien l'initiative des Centres de services aux entreprises du Canada.

### Programmes de contribution financière s'adressant au secteur de la technologie de pointe

**14.3** Ces programmes de nature complexe supposent un long processus d'approbation des projets qui comporte plusieurs étapes. Certains critères d'évaluation sont difficiles à appliquer, mais le Ministère peut apporter des améliorations au chapitre des évaluations et des analyses à l'appui des décisions en matière de financement. Dans les cas où d'autres ministères gèrent des programmes similaires, il est possible d'améliorer la coordination des procédures d'examen et d'évaluation en mettant en commun l'information et l'analyse des résultats. Le Ministère accomplit des progrès dans l'élaboration d'un mécanisme de mesure du rendement et dans la présentation d'information sur cet aspect.

**14.4** Nos constatations font ressortir les préoccupations constantes que suscite la gestion des engagements et des obligations découlant des programmes et incombant toujours au Ministère. Elles soulèvent aussi des questions susceptibles de se révéler importantes pour de nombreux autres programmes gouvernementaux accordant une aide sous forme de contributions. Par exemple, il faut examiner la mise en oeuvre, par le Ministère, de la politique concernant le remboursement des contributions pour s'assurer qu'elle est compatible avec le but visé par cette politique.

**14.5** Si le gouvernement se retire de certains secteurs de programmes, il est possible que les obligations qui continueront de lui incomber ne soient pas gérées adéquatement. Même si des programmes ne sont pas reconduits ou s'ils prennent fin, ils continuent de présenter des risques exigeant l'attention de la direction. Notre vérification a fait ressortir des domaines sur lesquels la direction doit continuer de porter son attention, notamment en s'assurant que les paiements s'appliquent uniquement à des coûts admissibles et que les contributions remboursables à l'État font l'objet d'une saine gestion.

## Chapitre 13 – Points saillants (suite)

- 13.18** Reste la nécessité d'élaborer une stratégie de passation de marchés qui définit l'obligation redditionnelle et les risques des agents d'exécution et de l'ACDI respectivement, dans le nouveau contexte de la gestion axée sur les résultats.
- 13.19** Une plus grande transparence est également nécessaire. Les Canadiens veulent la certitude que l'aide du Canada au développement est mise efficacement à profit et qu'elle fait une différence dans la vie des personnes qui en bénéficient, en augmentant leur autonomie.
- 13.20** Il serait donc temps d'accélérer l'élaboration d'indicateurs qui soient simples et utilisables pour mesurer les résultats de l'Agence et en faire rapport. Tout autre délai dans ce domaine pourrait miner la crédibilité de l'ACDI. L'Agence a besoin d'un système exhaustif de suivi et de communication de l'information pour évaluer la qualité et l'état d'avancement de ses projets.
- 13.21** Le rapport de la Phase II du suivi échelonné, prévu pour 1996, portera sur la mesure dans laquelle l'ACDI aura mené à bien la mise en oeuvre, sur le terrain, de son concept de gestion axée sur les résultats.
- 13.22** En période de grandes compressions budgétaires, il est plus important que jamais que l'ACDI soit en mesure d'expliquer au Parlement lesquels des canaux d'acheminement et instruments de programme qu'elle utilise contribuent le plus à l'atteinte des objectifs les plus prioritaires.



## Chapitre 13 – Points saillants

### Une nouvelle approche : « Le suivi échelonné »

13.11 Un élément important de notre travail est le suivi que nous faisons des mesures prises par les ministères et les organismes pour régler les problèmes soulevés dans les précédents rapports du vérificateur général. Ce chapitre représente une formule nouvelle et innovatrice d'informer le Parlement de la façon dont un organisme a réagi à notre rapport de vérification.

13.12 L'approche du suivi échelonné en trois phases est conçue de manière à renforcer l'obligation faite à l'ACDI de rendre des comptes au Parlement. Une évaluation continue, par l'Agence elle-même, de ses progrès dans le règlement des problèmes soulevés par le vérificateur général est essentielle. Elle vise à amener l'Agence à assumer davantage de tels problèmes et à obtenir un engagement plus vigoureux de mettre en oeuvre diverses mesures pour les régler.

13.13 En 1997, lorsque tous nos travaux de vérification seront terminés, nous formulerons une opinion sur la mesure dans laquelle les moyens pris par l'ACDI ont répondu de façon satisfaisante aux préoccupations que nous avons soulevées dans notre rapport de 1993.

### Auto-évaluation de l'ACDI (Phase I)

13.14 L'ACDI a lancé une grande initiative visant à faire de l'Agence un organisme davantage axé sur les résultats, polarisé, efficace et responsable. L'initiative de l'ACDI a été articulée au départ sur les pratiques de gestion. L'Agence considère que, jusqu'à présent, ses progrès ont été considérables.

13.15 Au cours des deux prochaines années, l'ACDI s'emploiera à traduire ses réformes dans l'exécution de ses programmes sur le terrain. L'Agence a bon espoir que la poursuite de l'initiative de renouveau amènera au règlement satisfaisant des principales préoccupations soulevées par le vérificateur général dans son rapport de 1993.

### Nos commentaires sur les mesures dont l'ACDI a fait rapport

13.16 Le rapport d'auto-évaluation de l'ACDI porte sur les principales préoccupations soulevées dans notre rapport de 1993. L'Agence a mis au point un concept de gestion axé sur les résultats pour améliorer son efficacité. La clarté avec laquelle l'ACDI a reconnu son obligation de rendre compte de ses résultats au Parlement et l'accent qu'elle met sur la cohérence dans la poursuite des priorités gouvernementales liées à l'aide publique au développement sont dignes de mention.

13.17 L'atteinte des objectifs stratégiques fixés par le gouvernement continuera d'exiger une analyse en profondeur des points forts du Canada et de la mesure dans laquelle ils correspondent aux besoins des pays en développement, ainsi que la prise de décisions politiques courageuses.



## Chapitre 12 – Points saillants (suite)

**12.8** Les ministères et le Secrétariat du Conseil du Trésor (SCT) ont reconnu les difficultés et les risques liés aux grands projets d'introduction de technologies de l'information. De plus, le Secrétariat a entrepris un examen en profondeur des facteurs qui les sous-tendent. Le SCT apporte actuellement, en collaboration avec les ministères, divers changements aux processus de lancement, de gestion et de surveillance des projets.



Vérificateur général adjoint : David H. Roth  
Vérificateur responsable : Eric Annila

## Chapitre 12 – Points saillants

**12.1** Les organisations modernes considèrent que l'introduction fructueuse de technologies est cruciale pour leur succès. Elles s'intéressent à l'immense potentiel qu'offrent les technologies de l'information afin de réduire les coûts et d'améliorer les services. Le gouvernement fédéral du Canada ne fait pas exception à la règle.

**12.2** La réalisation de projets de développement de systèmes, que ce soit dans les secteurs privé ou public, s'accompagne de risques et d'incertitude. En conséquence, il faut absolument relever les risques, les évaluer et bien les gérer.

**12.3** Nous avons constaté que seulement un des quatre systèmes en développement que nous avons examinés, soit le Système ministériel intégré de gestion des finances et du matériel (SFIM) de Transports Canada (TC), est actuellement géré d'une façon qui tient bien compte des risques. Des trois autres, le Système de rémunération de la fonction publique (SRFP) a été abandonné par Travaux publics et Services gouvernementaux Canada (TPSGC), le Système financier ministériel commun (SFM), développé actuellement par TPSGC, ne compte qu'un petit nombre d'utilisateurs fermes et le projet de Remaniement des programmes de la sécurité du revenu (RPSR) exige que la direction de Développement des ressources humaines Canada (DRHC) ne cesse de prendre des mesures correctives en vue d'en réduire les risques.

**12.4** TPSGC a consacré environ 61 millions de dollars au développement du SRFP dont les avantages prévus ne seront pas réalisés. Le coût total du projet devait s'établir à 119,5 millions de dollars.

**12.5** À l'instar de notre propre évaluation des risques, des études du secteur privé concluent qu'il est fort peu probable que les grands projets pluriannuels de développement de systèmes soient terminés dans les délais et le budget prévus et qu'ils aboutissent à la fonctionnalité souhaitée, tant dans le secteur public que dans le secteur privé.

**12.6** Pour accroître les chances d'introduire avec succès les technologies de l'information, le gouvernement devra viser à mettre en oeuvre ses stratégies à long terme dans ce domaine par composantes plus petites et plus faciles à gérer, dont chacune accroîtra la capacité (l'efficacité ou l'efficacite) de l'organisation.

**12.7** Les facteurs importants pour la gestion des risques liés à l'introduction fructueuse de technologies de l'information sont notamment :

- le partenariat efficace du projet, par une personne pouvant voir à ce que l'organisation comprenne et concrétise les avantages anticipés d'un projet de développement de systèmes;
- une définition claire des exigences des fonctions et du système;
- la participation et l'engagement réels des utilisateurs éventuels;
- les compétences et l'expérience des ressources affectées au projet.

## Chapitre 11 – Points saillants (suite)

- 11.6** De façon générale, les entreprises privées que nous avons consultées ont été retenues parce qu'elles appliquaient de bonnes pratiques environnementales ou étaient susceptibles de le faire. Ces entreprises étaient, en général, plus avancées que les ministères et les organismes du gouvernement fédéral dans la mise en application d'un système intégré de gestion de l'environnement. Toutefois, seul un très faible nombre des organisations consultées, tant du secteur privé que du secteur public, avaient achevé l'élaboration de tous les éléments de leur SGE. Le gouvernement fédéral a pris les mesures voulues, dans le cadre d'initiatives telles que le Partenariat en matière de responsabilisation environnementale, pour améliorer ses pratiques de gestion de l'environnement.
- 11.7** Un modèle de SGE ne fournit qu'un point de départ pour l'élaboration d'un système efficace de gestion de l'environnement. En définitive, ce qui compte avant tout, c'est l'amélioration continue du rendement environnemental de l'organisation.

# Les systèmes de gestion de l'environnement Une approche fondée sur des principes

Vérificateur général adjoint : Robert R. Lalonde  
Vérificateur responsable : Wayne Cluskey



## Chapitre 11 – Points saillants

**11.1** L'objet de ce rapport est de déterminer les éléments d'un bon système de gestion de l'environnement (SGE); de mettre en évidence les pratiques essentielles d'une saine gestion de l'environnement; et de décrire les rôles et les responsabilités du Secrétaire du Conseil du Trésor et d'Environnement Canada ainsi que les résultats des activités entreprises par ces derniers en vue de caractériser et de faire connaître les bonnes pratiques favorisant la mise en place des SGE.

**11.2** L'Organisation internationale de normalisation (ISO) définit un SGE comme suit : la partie du système de gestion global qui comprend la structure, les activités de planification, les responsabilités, les pratiques, les procédures, les mécanismes et les ressources qu'une organisation doit avoir pour assurer l'élaboration, la mise en oeuvre, la réalisation, l'examen et le maintien de la politique environnementale. Un SGE bien conçu fournit à une organisation un cadre de pratiques nécessaires pour assumer ses engagements liés à l'environnement et évaluer son rendement dans ce domaine et en rendre compte. Les organisations qui entreprennent de mettre en place un SGE peuvent tirer profit des pratiques et des expériences des autres organisations qui ont déjà adopté un tel système. Nous examinerons les points saillants de certaines de ces pratiques dans le présent rapport.

**11.3** Le Bureau du vérificateur général peut aussi tirer profit des pratiques des autres organisations. Nous avons l'intention d'utiliser les connaissances acquises au sujet des SGE dans nos travaux futurs sur les questions liées à l'environnement et au développement durable.

**11.4** Les ministères et les organismes fédéraux sont chargés de la gestion de leurs propres risques et responsabilités liés à l'environnement. Afin de les aider et de les conseiller, le Secrétaire du Conseil du Trésor diffuse des documents d'orientation présentant des politiques, des directives et des lignes directrices. Les ministères et les organismes peuvent alors appliquer ces conseils. Environnement Canada est responsable de l'administration des lois sur l'environnement. Il fournit également aux ministères et aux organismes une aide technique concernant des questions liées à l'environnement.

**11.5** Pour orienter ses pratiques de gestion de l'environnement, une organisation peut décider de prendre pour modèle l'un des nombreux systèmes existants de gestion de l'environnement. Les principes judicieux de gestion de l'environnement ne diffèrent pas des bons principes de gestion. Le contenu exact d'un modèle de gestion donné importe moins que les principes qui le gouvernent. L'Organisation internationale de normalisation est en train d'élaborer, sous le titre ISO 14004, un modèle de SGE fondé sur des principes et reconnu par un nombre sans cesse croissant de pays.



## Chapitre 10 – Points saillants (suite)

**10.7** Voici quelques-unes des autres questions ayant trait au contrôle et à la responsabilisation des sociétés d'État et de leur gestion générale :

- la dette des sociétés d'État a considérablement augmenté;
- certaines sociétés sont soumises au régime de l'impôt sur le revenu, d'autres ne le sont pas;
- les sociétés d'État exemptées devraient être réexaminées en vue d'établir un cadre approprié de contrôle et de responsabilisation, semblable à celui de la Partie X;
- il faudrait cesser de présenter les crédits comme des recettes.



Vérificateur général adjoint : Wm. F. Radburn  
Vérificateur responsable : Grant Wilson

## Sociétés d'État

### S'acquitter des responsabilités en matière d'intendance

## Chapitre 10 – Points saillants

**10.1** Les objectifs de la politique sont poursuivis et les activités du gouvernement sont exécutées grâce à divers types d'organisations. Bien que le nombre d'entités aille en décroissant, la société d'État reste le type d'entité le plus important en dehors des ministères et des organismes. Chaque type d'organisation exige un niveau approprié de contrôle et de responsabilisation; les sociétés d'État disposent d'un cadre établi à cette fin dans la Partie X de la Loi sur la gestion des finances publiques.

**10.2** Le cadre défini dans la Partie X accorde aux sociétés d'État une certaine latitude, accompagnée de contrôles appropriés, et établit clairement les mécanismes nécessaires pour rendre les fonds de pouvoir comptables de la manière dont ils s'acquittent de leur responsabilité. Le cadre de contrôle et de responsabilisation constitue une assise législative solide qui, à notre avis, a donné de très bons résultats depuis son instauration il y a 11 ans. La situation actuelle est bien meilleure que celle qui prévalait avant l'introduction du cadre en 1984. Selon nous, les Canadiens sont généralement bien servis par ce cadre qui régit les activités des sociétés d'État.

**10.3** Cependant, au cours du deuxième cycle d'examen spéciaux (un genre de vérification de l'optimisation des ressources), le Bureau a signalé au conseil d'administration de 80 p. 100 des sociétés actives au moins une lacune importante, le plus fréquemment dans les secteurs liés : 1) à la planification générale et stratégique et 2) à la mesure du rendement et à la communication des résultats. En fait, chaque société qui présentait une lacune importante, en avait une dans l'un ou l'autre de ces deux secteurs.

**10.4** Dans certaines sociétés, la façon dont le mandat général est interprété ne permet pas toujours l'établissement d'objectifs mesurables. Dans d'autres, les données sur le rendement recueillies et communiquées ne sont pas suffisamment axées sur les résultats des programmes et des activités de la société. Ce n'est que dans quelques-unes seulement des sociétés examinées que les résultats réels ont été comparés à des cibles significatives. Il arrive souvent que l'information sur ce que font les sociétés soit fournie, mais que celle sur les résultats soit insuffisante. En conséquence, le gouvernement et le Parlement ne peuvent tenir les sociétés responsables de l'atteinte des résultats escomptés.

**10.5** Le processus et la structure, appelés *intendance*, dont on se sert pour orienter et gérer les affaires de la société afin de relever sa valeur pour les Canadiens pourraient aider à traiter ces questions. L'intendance de la société d'État n'incombe pas seulement au conseil d'administration; il y faut aussi la participation active du gouvernement et du Parlement. Nous décrivons un certain nombre de mesures que pourraient prendre toutes les personnes qui ont une responsabilité d'intendance à l'égard de ces questions.

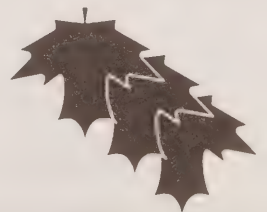
**10.6** Lorsqu'ils ont répondu à notre sondage de février 1995, la majorité des présidents de conseil et des chefs de direction des sociétés d'État reconnaissaient que les examens spéciaux étaient à la fois nécessaires et utiles à la société, au gouvernement et au Parlement comme moyen d'évaluer l'information redditionnelle. En préparant le troisième cycle d'examen spéciaux, nous prévoyons être plus efficaces et fournir une plus grande valeur à tous les responsables de l'intendance.

## Information destinée au

## Parlement

## Les déficits et la dette : Pour comprendre les choix

Vérificateur général adjoint : Ron Thompson  
Vérificateur responsable : Jeff Greenberg



## Chapitre 9 – Points saillants

- 9.1** Le gouvernement fédéral emprunte de l'argent et fait rapport de l'information à ce sujet depuis la Confédération. En qualité de vérificateurs, nous estimons que les données financières doivent être non seulement crédibles et compréhensibles, mais également utiles. Cela veut dire les mettre en contexte en les comparant à un quelconque point de référence pertinent, comme la taille de l'économie. À la lumière de cette comparaison, on constate que la dette fédérale de 1994-1995, qui s'établit à 546 milliards de dollars, s'élève à près de 75 p. 100 des revenus générés par les Canadiens l'an passé.
- 9.2** Toutefois, il est difficile de savoir si le fardeau de la dette est trop lourd, pas assez ou juste assez; c'est surtout affaire d'opinion. Pour se faire une idée, les Canadiens doivent comprendre que plus le fardeau de la dette est imposant, plus les frais d'intérêts s'élèvent et, par conséquent, moins il reste d'argent pour les besoins des programmes si l'on ne hausse pas les impôts.
- 9.3** Même s'il s'agit d'une situation désagréable, l'alternative, c'est-à-dire alléger le fardeau de la dette pour éviter les répercussions contraignantes des frais d'intérêts, notamment en haussant les impôts ou en réduisant les dépenses, n'est guère plus attrayante.
- 9.4** Jusqu'à maintenant, les discussions sur la politique fiscale se sont articulées autour de la réduction du déficit et de l'équilibre budgétaire. Elles n'ont pas été suffisamment axées sur la question plus générale de la taille de la dette que nous pouvons assumer à long terme, ni sur la façon dont cette question s'inscrit dans notre vision du régime fiscal et du rôle du gouvernement. Nous sommes d'avis que le gouvernement devrait engager le Parlement à susciter cette vision.
- 9.5** Pour qu'un tel débat soit utile, le Parlement a besoin d'information qui l'aide à clarifier les choix. À notre avis, le gouvernement fédéral devrait fournir cette information à long terme dans le cadre du processus de consultation budgétaire de l'autonomie. Selon nous, les Canadiens pourront déterminer de quelle façon les budgets annuels s'inscrivent dans une vision à long terme de la dette supportable seulement lorsque le gouvernement se sera engagé à proposer une vision de la taille de la dette qu'il est prêt à assumer et qu'il aura façonné ses budgets en conséquence.
- 9.6** Nous concluons le chapitre en rappelant au Parlement et au public que notre propos concerne uniquement le gouvernement fédéral. En réalité, il y a trois paliers de gouvernement qui lèvent des impôts et qui empruntent en notre nom. Pour être en mesure de voir au-delà de chaque différent palier de gouvernement et de s'interroger sur la dette que les Canadiens peuvent assumer, il nous faut connaître la dette de tous les paliers de gouvernement au Canada. L'information dont nous disposons actuellement ne répond pas très bien à cette question. À notre avis, elle le devrait.

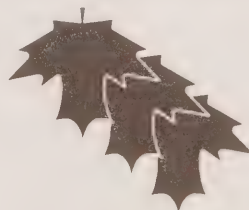




## Chapitre 8 – Points saillants

- 8.1** Dans notre rapport annuel de 1994, nous avons signalé que le ministère des Affaires étrangères et du Commerce international avait fait enquête sur des demandes de remboursements irrégulières que des employés avaient soumises aux termes des directives sur le service extérieur. En outre, nous avons exprimé notre intention de faire un suivi des mesures prises par le Ministère pour rectifier le problème. Nous nous sommes aussi engagés à présenter un rapport de nos constatations en mai 1995. Les premières irrégularités repérées au titre des dépenses de voyage remontent à 1988. Une longue enquête a débuté presque immédiatement et s'est terminée en septembre 1994. Les dernières mesures disciplinaires seront appliquées en 1995.
- 8.2** L'enquête menée par le Ministère sur les irrégularités relatives aux dépenses de voyage a été approfondie et les sommes relevées ont été recouvrées. Le Ministère a bien su gérer le processus disciplinaire et a imposé des sanctions dans les cas d'inconduite, principalement sous forme de suspensions. On peut maintenant tourner la page et se concentrer sur le présent et l'avenir.
- 8.3** Le Ministère doit poursuivre ses efforts en vue d'améliorer sa gestion des déplacements. Le Secrétariat du Conseil du Trésor, en collaboration avec les ministères concernés, doit préciser davantage les obligations redditionnelles à l'égard des résultats des directives sur le service extérieur. En outre, le processus de prise de décisions du Ministère et du Secrétariat du Conseil du Trésor à cet égard doit s'appuyer sur une meilleure information analytique.
- 8.4** Dans notre rapport de 1994, nous observions que les directives sur le service extérieur demeuraient très complexes. Il faut dire que, malgré nos fréquentes remarques formulées à ce sujet au fil des ans, nos préoccupations face à cette complexité ne se sont pas complètement dissipées. Dans le présent chapitre, nous nous pencherons à nouveau sur ce problème. Les modifications apportées en 1993 aux directives sur le service extérieur donnent plus de latitude aux employés pour ce qui est d'utiliser leurs allocations de déplacement. Les résultats de ces modifications, y compris les économies réalisées éventuellement, n'ont pas été évalués. Il faudrait saisir cette occasion qu'est l'examen triennal prévu en 1996 pour les vérifier. Comme nous l'avons observé en 1994, une révision en profondeur de tout le système des directives du service extérieur demeure le plus grand défi que doit relever le Ministère.





Vérificateur général adjoint : David H. Roth  
Vérificateur responsable : Trevor R. Shaw

## Chapitre 7 – Points saillants

**7.1** Les déplacements sont nécessaires à l'exécution des programmes du gouvernement. De par leur nature, les déplacements coûtent cher. En 1993-1994, les dépenses de déplacements se sont élevées à 685 millions de dollars; ce montant n'inclut pas la valeur du temps que les fonctionnaires y consacrent ni le coût d'administration de ces déplacements. Dans l'ensemble, nous avons constaté que la gestion et la reddition des comptes pourraient être améliorées.

**7.2** Notre vérification a confirmé qu'il existe un faible risque de non-conformité répandue aux règles régissant les indemnités de déplacement. Bien que des données soient disponibles au niveau des centres de responsabilité, l'information n'est pas structurée de façon telle que la direction puisse évaluer avec efficacité la nécessité et les coûts des déplacements par rapport aux avantages de ces derniers pour le programme. Les déplacements sont administrés au moyen d'un système d'indemnités. Un système axé sur les règles comporte des avantages. Toutefois, un système qui accorderait plus d'importance aux valeurs pourrait améliorer le rapport coût-efficacité des déplacements et remonter le moral des employés.

**7.3** Pour la majorité de leurs déplacements par avion, les fonctionnaires voyagent en classe économique. En 1993-1994, le Service des voyages du gouvernement a réservé plus de 230 000 billets d'avion. De ce nombre, plus de 93 p. 100 étaient des billets de classe économique et moins de 7 p. 100, des billets de première classe ou de classe affaires.

**7.4** Les ministères s'efforcent de réduire les coûts de déplacement. En achetant des sièges de classe économique à tarif réduit, le Service des voyages du gouvernement a permis au gouvernement d'économiser 37,7 millions de dollars en 1993-1994. Parmi les mesures qui pourraient se solder par des économies, mentionnons le recours accru à la technologie pour remplacer des déplacements, l'obtention de rabais directs sur les billets d'avion et l'utilisation accrue des vols noisés. L'automatisation et la rationalisation des procédures pourraient permettre d'améliorer le contrôle et de réduire les coûts de l'administration des déplacements. La mise en oeuvre de ces stratégies exigera des efforts concertés et la collaboration entre organismes centraux et ministères.

**7.5** Les frais d'accueil de tous les ministères ne représentent pas au total une somme importante. La moitié des frais sont engagés par deux ministères : le ministère des Affaires étrangères et du Commerce international et le ministère de la Défense nationale.

6.8 Le gouvernement a ordonné que deux examens de programme soient faits à la fin de la période de transition, l'un par l'industrie en 1998, et l'autre par le gouvernement en 1999. Le ministère des Transports et l'Office national des transports doivent commencer maintenant la planification et la collecte de données pour que soient disponibles les renseignements nécessaires à ces examens.

## Le Programme de subventions au transport des marchandises dans la Région atlantique

6.9 Le ministère des Transports a produit une étude intitulée *Programme de subventions au transport des marchandises dans la Région atlantique, Cahier d'information* pour mesurer les effets de ce programme. Nous avons examiné ce cahier et l'avons jugé fiable, compte tenu des limites inhérentes à l'évolution des connaissances pour les études de ce genre.

6.10 En ce qui concerne le sous-programme des subventions au transport intrarégional, les tribunaux ont adopté une interprétation étroite des dispositions réglementaires pour déterminer l'admissibilité des mouvements où interviennent des expéditeurs et des transporteurs avec lien de dépendance. L'Office a recommandé une modification de la réglementation, mais on n'y a pas donné suite.

6.11 La déréglementation des taux de transport des marchandises survenue à la fin des années 80 a entraîné une multiplication des expéditeurs et transporteurs avec lien de dépendance. Comme les taux demandés par ces derniers ne sont pas soumis aux forces du marché, il y a risque qu'ils soient gonflés pour que l'on puisse toucher des subventions plus élevées.

6.12 La multiplication des transporteurs et des expéditeurs avec lien de dépendance et la déréglementation des taux de transport qui s'est accentuée ont eu pour effet de rendre le Programme, conçu pour une autre époque, de moins en moins adapté à l'état de l'industrie qu'il visait à subventionner.

6.13 L'Office n'évalue pas le caractère raisonnable des frais de transport des marchandises qui lui sont soumis aux fins du versement de subventions. Il estime ne pas avoir l'autorité pour ce faire.

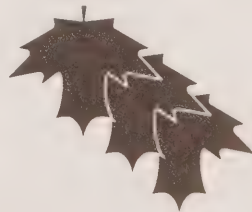
6.14 Il importera de veiller à l'application rigoureuse des mesures de contrôle sur le versement des subventions durant la période de dissolution du Programme.

# Les subventions fédérales au transport

Le Programme de la Loi sur le transport du  
grain de l'Ouest

Le Programme de subventions au transport  
des marchandises dans la Région atlantique

## Chapitre 6 – Points saillants



Vérificateur général adjoint : Shahid Minto  
Vérificateur responsable : Hugh A. McRoberts

6.1 Le 27 février 1995, vers la fin de notre vérification du Programme de la Loi sur le transport du grain de l'Ouest et du Programme de subventions au transport des marchandises dans la Région atlantique, le gouvernement a annoncé que ces programmes seraient abolis le 1<sup>er</sup> août et le 1<sup>er</sup> juillet respectivement. Nous avons quand même décidé de communiquer certaines de nos observations pour plusieurs raisons : certaines aideront le Parlement à délibérer sur ces programmes, d'autres aideront à la reddition des comptes, et d'autres encore portent sur des questions auxquelles il faudra prêter attention pendant les phases de transition ou de dissolution de ces programmes.

6.2 L'exposé de nos constatations sur ces deux programmes dans un même volume risque d'amener le lecteur à faire des comparaisons entre les deux. Cependant, ce sont là des programmes uniques, régis par des lois et des objectifs distincts. Ils ont présenté des défis très différents à leurs directions respectives; dans certains cas, ce qui était facile pour l'une a été difficile pour l'autre en raison de leur conception et de leur contexte historique très différents.

### Le Programme de la Loi sur le transport du grain de l'Ouest

6.3 La Loi sur le transport du grain de l'Ouest (LTGO) a été adoptée en 1983 pour faciliter le transport et la manutention du grain de l'Ouest. Nous avons examiné les rôles que l'Office du transport du grain (OTG) et l'Office national des transports (ONT) jouaient dans le programme qui en a résulté.

6.4 L'Office du transport du grain a donné suite à nos recommandations de 1987 au sujet des prévisions du volume de grain. Toutefois, il n'a pas satisfait aux exigences de la Loi en ce qui concerne la surveillance du rendement des chemins de fer et des autres participants au transport et à la manutention du grain.

6.5 Comme on continuera de régler le taux de transport du grain par chemin de fer pendant la période de transition (jusqu'en l'an 2000), il faudra continuer de prêter attention aux questions de la répartition des wagons-trémies, de la demande de pointe et de l'utilisation efficace de ces wagons. Nous allons en traiter brièvement et faire des recommandations au ministère des Transports, qui en sera chargé après la dissolution de l'Office du transport du grain.

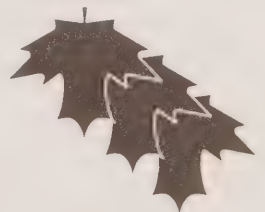
6.6 Nous avons constaté que l'Office national des transports avait établi des mesures de contrôle appropriées pour les paiements à verser aux chemins de fer en application de la Loi sur le transport du grain de l'Ouest.

6.7 La Loi oblige l'Office national des transports à procéder à un examen annuel des plans d'investissement des chemins de fer et à un examen quadriennal des coûts que ces derniers ont absorbés pour le transport du grain. Dans les deux examens, l'Office doit, entre autres, évaluer la contribution des investissements et des coûts au maintien d'un réseau de transport ferroviaire « adéquat, fiable et efficace » pour le grain de l'Ouest. Dans les deux cas, l'Office nous a informés qu'il effectuait l'évaluation requise en termes qualitatifs. La documentation de cet aspect de son travail ne nous a permis, dans aucun de ces cas, de déterminer l'exactitude de ses conclusions.

**5.6** Les processus de surveillance du BSIF ont été améliorés graduellement, mais il reste encore beaucoup à faire. Pour s'occuper des institutions en difficulté, le BSIF doit renforcer les processus qu'il utilise pour appuyer l'exercice de ses pouvoirs discrétionnaires et l'élaboration de plans d'action exhaustifs, afin de s'assurer que des mesures correctives sont prises rapidement. De plus, les secteurs spécialisés à risques devraient faire l'objet d'une inspection plus approfondie; l'élaboration des méthodes d'inspection n'est pas encore terminée; les examens du contrôle de la qualité postérieurs à l'inspection et l'analyse rétrospective (post mortem) doivent être améliorés; et il faut accorder plus d'attention à l'amélioration des compétences, de la formation professionnelle et de l'expérience des inspecteurs.

**5.7** Le BSIF a plusieurs occasions importantes de réaliser des efficacités sur le plan organisationnel. Ses fonctions d'inspection, de surveillance et d'élaboration des politiques, pour le secteur des institutions de dépôt et celui des assurances, demeurent en grande partie séparées et distinctes alors que ces secteurs sont de plus en plus intégrés dans l'industrie des services financiers.





## Chapitre 5 – Points saillants

5.1 L'industrie des services financiers a subi d'importantes transformations ces dernières années. Certains membres sont demeurés en bonne santé financière; plusieurs autres ont été confrontés à des problèmes importants et certains n'ont pas survécu. Dans quelle mesure le Bureau du surintendant des institutions financières (BSIF) et le système de réglementation dans son ensemble ont-ils permis d'assurer la sécurité et la santé financière des institutions de dépôt, tout en permettant d'atteindre les objectifs établis par le gouvernement? Nous n'avons pas trouvé de réponse satisfaisante à cette question. Même si le Livre blanc publié en février 1995 traite de plusieurs questions connexes, une évaluation exhaustive de l'efficacité du système s'impose.

5.2 Le système de réglementation comporte certaines faiblesses structurelles. Le mandat du BSIF n'est pas établi dans une seule loi. Les responsabilités du BSIF, de la Société d'assurance-dépôts du Canada (SADC) et du ministère des Finances, en ce qui concerne les objectifs de politique publique comme la stabilité et la compétitivité du système financier, ne sont pas claires. Et le ministère des Finances n'a pas précisé de quelle façon il assure le fonctionnement harmonieux du système de réglementation.

5.3 Les responsabilités des principaux intervenants dans le système de réglementation fédéral ne sont pas assez bien définies pour leur permettre de mesurer les résultats obtenus et d'en faire rapport. Les processus de réglementation doivent être plus transparents et le BSIF doit, dans la mesure du possible, divulguer plus de renseignements au sujet de la façon dont il supervise les institutions financières. Il devrait aussi envisager la possibilité de fournir aux institutions des renseignements sur les meilleures pratiques de gestion dans l'industrie et des comparaisons avec des groupes de pairs.

5.4 Les responsabilités du BSIF et de la SADC se chevauchent dans plusieurs domaines. Même si certains chevauchements peuvent servir de mécanismes utiles d'autoc Contrôle, d'autres, qui semblent aller à l'encontre des buts recherches, devraient être éliminés ou mieux gérés. Les deux organismes s'efforcent sérieusement d'améliorer leur coordination.

5.5 Le BSIF doit s'assurer qu'il a les moyens de relever les défis qui se posent à l'avenir, car l'industrie des services financiers continue d'évoluer rapidement. En particulier, le BSIF doit donner l'accent à la surveillance périodique des institutions plutôt qu'à l'inspection annuelle, car la situation peut évoluer rapidement dans cette industrie dynamique. Le BSIF devrait aussi préciser ses attentes en matière de régulation interne dans les institutions financières et accorder une attention de tous les instants à l'étude des secteurs qui posent des risques systémiques, comme les conglomérats financiers et les activités relatives aux valeurs mobilières.

- 4.9** À ce stade précoce du processus de changement, nous avons constaté que le règlement d'un certain nombre de problèmes déjà connus progressait assez lentement. Par exemple, bien que la Direction des médicaments ait pris certaines mesures, d'importants problèmes soulevés au cours d'études précédentes ne sont toujours pas réglés. De même, au Bureau des matériels médicaux, un bon nombre des changements recommandés en 1992 n'ont pas encore été entièrement apportés. Pour que les changements dans les programmes portent fruit, il faudra consacrer des efforts soutenus afin de résoudre ces problèmes.
- 4.10** L'expérience de la DGPS indique à quel point il est important que les gestionnaires soient proactifs. Les gestionnaires du gouvernement font face à de nombreuses demandes de changement dans les programmes et dans les budgets, provenant soit de l'intérieur, soit de l'extérieur de leurs organisations. En mettant en route leur propre processus d'examen, les gestionnaires de la DGPS étaient en meilleure position pour satisfaire à la fois aux exigences de l'examen des programmes du gouvernement et aux priorités de la Direction générale. La nécessité permanente de changer et de s'ajuster rend cette capacité de réaction d'autant plus importante.
- 4.11** La rapidité avec laquelle les gestionnaires de la Direction générale peuvent modifier leurs programmes et leurs activités est liée aux exigences de processus d'approbation extérieures à la Direction générale, comme l'approbation réglementaire et les autorisations pour le recouvrement des coûts. Le défi du gouvernement sera de trouver des manières de satisfaire aux exigences qui s'appliquent à toute l'administration fédérale, tout en appuyant les initiatives prises par de plus petites unités comme la Direction générale de la protection de la santé.



## Chapitre 4 – Points saillants

**4.1** La Direction générale de la protection de la santé (DGPS) de Santé Canada a pour mandat d'exécuter des programmes d'évaluation et de gestion des risques pour la santé publique auxquels sont exposés les Canadiens. La Direction générale joue un rôle national unique en ce sens qu'elle protège les Canadiens des risques, actuels ou nouveaux, pour la santé publique.

**4.2** Les gestionnaires de la Direction générale craignaient de n'être plus en mesure de faire face à leurs obligations envers les Canadiens, à savoir gérer les risques, actuels ou nouveaux, pour la santé publique, s'ils continuaient de réduire leurs budgets. En 1993, la Direction générale a fait appel à un programme de gestion du changement pour résoudre ce dilemme.

**4.3** Le présent chapitre examine les premiers progrès réalisés par la Direction générale dans l'introduction de changements susceptibles de résoudre le dilemme en question, et de régler certains problèmes de programme connus. Nous avons examiné le projet aux premiers stades du processus afin de déterminer si l'expérience de la Direction générale pourrait être de quelque utilité pour d'autres organismes qui se trouvent soumis à des pressions semblables.

**4.4** La Direction générale a réussi à rassembler les ressources nécessaires pour mettre les choses en route. Un processus initial acceptable a été élaboré et une vision de ce que l'on souhaitait réaliser a été définie. La mise en oeuvre d'un plan d'action appelé Nouvelle entreprise a commencé en avril 1994.

**4.5** Le processus a, dès le début, abouti à un certain nombre de résultats comme les changements organisationnels, l'élaboration d'un cadre stratégique de la Direction générale et l'amélioration de systèmes internes.

**4.6** Il a fallu faire des compromis au début du processus. Les données nécessaires sur l'efficacité et les coûts connexes des programmes et des activités n'étaient pas toujours disponibles. Les premières tentatives d'élaboration d'une stratégie de gestion des risques pour la santé publique n'ont pas produit de résultats qui permettent de distinguer clairement les divers risques pour la santé publique. Ce sont des points dont il faudra s'occuper pour que la Nouvelle entreprise puisse aller de l'avant.

**4.7** Dans des domaines auxquels on porte une attention soutenue, comme le recouvrement des coûts, on continue de faire des progrès. Des cibles ont été fixées, et on génère plus de recettes. La rapidité avec laquelle la Direction générale peut atteindre ses cibles est fortement influencée par des processus d'approbation qui échappent à son contrôle.

**4.8** Après les premières réalisations, le rythme du changement s'est ralenti dans toute la Direction générale. Des pressions visant à inciter les gestionnaires à faire des changements ont continué de s'exercer grâce aux examens réguliers et minutieux d'un comité de surveillance. La Direction générale doit chercher des manières de retrouver une partie de son élan et de son enthousiasme du début.



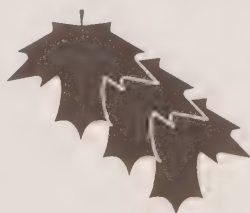
3.6 Il existe un autre type de déchets faiblement radioactifs; on les appelle les déchets historiques. Ils relèvent de la compétence du gouvernement fédéral et, à l'heure actuelle, ils sont surveillés et traités dans le cadre d'une mesure provisoire visant à protéger la santé du public et l'environnement. Le gouvernement fédéral a entrepris différentes initiatives en vue de trouver des solutions à long terme. En particulier, lorsque le Groupe de travail chargé du choix d'un site de gestion des déchets faiblement radioactifs présentera son rapport, le gouvernement devra prendre des décisions au sujet de la mise en oeuvre de solutions à long terme pour les déchets radioactifs historiques de la région de Port Hope.

3.7 Les résidus d'uranium, autre catégorie de déchets radioactifs, sont régis par des règlements fédéraux et provinciaux. La CCEA a choisi de ne pas délivrer de permis aux mines d'uranium dont les activités avaient cessé avant 1976. Il s'ensuit que ces sites ne sont pas assujettis au régime de réglementation actuel de la CCEA et qu'ils devraient l'être. Les gouvernements fédéral et provinciaux doivent déterminer à qui reviennent les responsabilités résiduelles pour la remise en état et le déclassement des sites de résidus d'uranium en Ontario et en Saskatchewan, et prévoir des mesures institutionnelles pour l'entretien à long terme de ces sites.

3.8 Au cours des prochaines années, la part du fédéral dans la mise en oeuvre de solutions de stockage permanent des déchets radioactifs du Canada s'élèvera à environ 850 millions de dollars. Cela s'inscrit parmi les 10 milliards de dollars au moins, qui relèvent de la responsabilité des producteurs de déchets, en particulier les services d'électricité qui exploitent des réacteurs nucléaires. La part du fédéral augmentera si le gouvernement doit assumer une responsabilité résiduelle pour d'autres producteurs de déchets. Jusqu'à maintenant, aucun passif éventuel n'a été divulgué dans les Notes afférentes aux états financiers du gouvernement du Canada ni dans les Notes afférentes au *Rapport financier annuel* du gouvernement du Canada.

3.9 Afin de réduire au minimum le passif éventuel du gouvernement fédéral et le fardeau pour les générations futures, les connaissances techniques du Canada doivent maintenant se traduire par la mise en oeuvre de solutions à long terme rentables pour ces déchets radioactifs. Il importe également de voir à ce que des arrangements soient en place pour couvrir les besoins de financement des solutions futures. Le gouvernement fédéral a un rôle important à jouer pour assurer la mise en oeuvre de solutions à long terme concernant le stockage permanent du combustible épuisé et des déchets faiblement radioactifs. En plus de fournir une orientation de principe, Ressources naturelles Canada devra axer son travail sur la conclusion d'une entente entre les principaux intervenants en ce qui a trait à leurs rôles et responsabilités respectifs ainsi qu'aux approches et aux plans pour la mise en oeuvre des solutions.





## Chapitre 3 – Points saillants

**3.1** Le gouvernement fédéral joue un rôle important au niveau de l'élaboration d'une politique d'ensemble et d'une stratégie fédérale en matière de gestion des déchets radioactifs. L'énergie nucléaire, incluant les déchets radioactifs, relève de son champ de compétence et de ses pouvoirs de réglementation. Il effectue également des recherches sur les déchets radioactifs et il est propriétaire d'une partie de ceux-ci.

**3.2** La gestion des déchets radioactifs comporte la maintenance et le traitement des déchets radioactifs ainsi que leur transport, leur stockage et leur récupération. Le stockage est une méthode de gestion sûre des matières radioactives, qui permet leur récupération. L'évacuation désigne un confinement permanent des déchets radioactifs, sans intention de récupération.

**3.3** La politique de réglementation fédérale indique que les objectifs de l'évacuation des déchets radioactifs sont de réduire au minimum le fardeau des générations futures et de protéger l'environnement et la santé des êtres humains. En général, les déchets radioactifs sont gérés dans des installations qui sont titulaires d'un permis de la Commission de contrôle de l'énergie atomique (CCEA), qui veille à ce que les déchets soient stockés d'une manière sûre. La CCEA considère la gestion actuelle des déchets comme une mesure provisoire, à laquelle il faut trouver des solutions à long terme pour assurer la sécurité à long terme. Le Canada ne possède aucune installation de stockage permanent pour les déchets hautement radioactifs, ni pour les déchets faiblement radioactifs.

**3.4** Depuis le début des années 50, Énergie atomique du Canada Limitée (EACL) a mené des recherches sur l'évacuation des déchets hautement radioactifs, surtout sur le combustible épuisé des réacteurs nucléaires. En 1978, un important programme de recherche et développement a été entrepris afin de trouver une solution à ce problème. Tout au long du programme, les dates cibles visées par le Canada pour le fonctionnement de l'installation d'évacuation ont constamment été reportées, l'an 2025 étant la date prévue actuellement pour cette installation. De plus, le programme canadien n'a pas avancé aussi rapidement que celui de certains autres pays. Par exemple, la Suède, qui élabore un concept similaire, prévoit avoir une installation de stockage permanent d'ici l'an 2008. Au Canada, des décisions doivent encore être prises pour déterminer s'il faut s'engager dans le domaine de l'évacuation des déchets et comment le faire. Malgré des investissements majeurs d'environ 538 millions de dollars faits au Canada en recherche et développement, on n'a pas envisagé d'approches de échange pour poursuivre le programme de gestion des déchets hautement radioactifs après mars 1997, soit lorsque le financement actuel du gouvernement prendra fin.

**3.5** Les déchets faiblement radioactifs découlant des activités continues de l'industrie nucléaire sont présentement stockés dans des installations titulaires d'un permis de la CCEA, mais il faut élaborer un plan pour le stockage permanent de tous ces déchets. Contrairement à certains autres pays, le Canada n'a approuvé aucune technologie de stockage permanent, ni de site d'évacuation pour ses déchets d'exploitation.

**2.7** L'utilisation des biphényles polychlorés (BPC) ainsi que l'entreposage et la destruction des déchets fédéraux contenant des BPC sont contrôlés en vertu des règlements d'application de la *Loi canadienne sur la protection de l'environnement* afin d'en atténuer les risques pour la santé humaine et l'environnement. En 1990, le Plan vert prévoyait la destruction de tous les BPC fédéraux d'ici 1996. Or, le programme fédéral de destruction des BPC, en vigueur depuis 1988, a pris fin le 31 mars 1995. De plus, l'absence d'autorisation publique retarde le processus de choix d'un lieu où aménager les installations de destruction et il y a encore du matériel contenant des BPC en service. Il y aura donc des risques d'accident et des coûts d'entreposage en 1996 et au-delà.

**2.8** Le 31 mars 1995, Environnement Canada a mis fin à son rôle de chef de file en matière de gestion de la destruction des BPC, sans avoir préparé un plan pour aider les ministères fédéraux à regrouper d'avantage leurs déchets contenant des BPC et à en réduire le volume, ainsi qu'à élaborer des plans d'action en vue de leur destruction. Cela pourrait menacer sérieusement la capacité du gouvernement d'assurer un entreposage sûr et rentable de même que la destruction en temps opportun des déchets fédéraux contenant des BPC.



# Environnement Canada : Les déchets dangereux — la gestion d'un lourd héritage

Vérificateur général adjoint : Robert R. Lalonde  
Vérificateurs responsables : Wayne Cluskey et Cameron Young

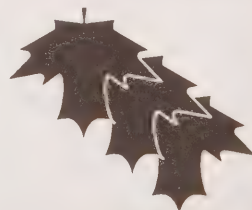
## Chapitre 2 – Points saillants

- 2.1 En 1989, le Conseil canadien des ministres de l'environnement a approuvé un financement de 250 millions de dollars pour le Programme national d'assainissement des lieux contaminés afin de mettre au point de nouvelles techniques et de dépolluer les lieux contaminés. Lorsque le financement de ce programme fédéral-provincial a pris fin le 31 mars 1995, aucun plan national ni aucun fonds fédéral n'a été créé pour l'assainissement des autres lieux contaminés qui présentent des risques pour la santé humaine et l'environnement.
- 2.2 On ne possède pas d'information complète et cohérente sur le nombre et les caractéristiques des lieux contaminés au Canada. Cette information est essentielle pour évaluer les coûts d'assainissement des lieux à risque élevé et adopter un plan d'action.
- 2.3 Au 31 mars 1995, seulement 11 des 48 lieux contaminés à risque élevé, répertoriés en vue de leur dépollution en vertu du Programme national d'assainissement des lieux contaminés, ont été entièrement dépollués en vertu des ententes fédérales-provinciales. En 1995-1996, Environnement Canada prévoit poursuivre la dépollution de tout au plus 13 des 37 lieux restants qui en sont encore à diverses étapes du processus d'assainissement. Plusieurs de ces lieux présentent encore des risques pour la santé humaine et l'environnement.
- 2.4 Le Ministère n'a pas proposé de modification à la *Loi canadienne sur la protection de l'environnement* (1988) ni élaboré de règlements en vertu de la Loi qui permettraient d'assurer un contrôle adéquat des risques environnementaux associés aux installations et aux terres de l'État, y compris la dépollution des lieux contaminés fédéraux. Il a cependant fourni une analyse des questions et des options disponibles au Comité permanent de l'environnement et du développement durable de la Chambre des communes, qui étudie actuellement la Loi.
- 2.5 Le Ministère n'a pas respecté l'exigence à l'effet qu'il devait rendre compte au Cabinet à la fin de 1992 relativement à la dépollution des lieux fédéraux et à la suffisance des fonds à cet effet. Les études préliminaires indiquent que la dépollution coûtera probablement au moins deux milliards de dollars, mais encore faut-il obtenir de meilleures informations quant au nombre et aux caractéristiques des lieux. De plus, aucune des obligations éventuelles n'a été divulguée dans les Notes afférentes aux états financiers du Canada ni dans les Notes afférentes au *Rapport financier annuel* du gouvernement du Canada.
- 2.6 De plus, le Ministère n'a pas fourni au Parlement l'information adéquate dans la Partie III du *Budget des dépenses* concernant les coûts réels du Programme national d'assainissement des lieux contaminés, ni sur les résultats du Programme ou les contraintes importantes qui ont été utilisées à d'autres fins. Cependant, le Ministère a contribué de façon importante aux rapports annuels sur le Programme faits par le Conseil canadien des ministres de l'environnement.



# La sensibilisation à l'éthique et à la fraude au gouvernement

Verificateur général adjoint : Richard B. Fadden  
Verificateur responsable : Alan R. Gilmore



## Chapitre 1 – Points saillants

**1.1** Les Canadiens se préoccupent de l'intégrité du gouvernement et ils ont le droit de s'attendre à ce que l'administration publique respecte les normes d'éthique les plus élevées. Cependant, ils doivent se rendre compte qu'ils ont également plus d'attentes à l'égard des normes d'éthique d'un certain nombre d'autres institutions et professions et que ces dernières, aussi bien que les leurs, influencent les normes du gouvernement.

**1.2** Nous n'avons pas entrepris cette étude parce que nous pensions que les normes d'éthique des gouvernements canadiens diminuaient de rigueur ou étaient inférieures à celles du secteur privé. Les Canadiens attendent probablement beaucoup plus du secteur public que du secteur privé pour ce qui est du respect des normes d'éthique.

**1.3** Nous n'avons pas non plus entrepris cette étude parce que nous pensions que la situation au Canada était pire que dans les autres pays. À notre avis, les gouvernements canadiens n'ont rien à envier aux administrations des autres pays en fait d'intégrité.

**1.4** Et pourtant, les Canadiens se préoccupent de l'intégrité du gouvernement. Si les Canadiens n'ont pas confiance en leurs gouvernements, les actes de ceux-ci seront de moins en moins légitimes et de moins en moins efficaces. De là, toute l'importance d'un débat sur l'éthique au gouvernement et la nécessité de mesures qui permettront de maintenir et d'encourager le respect de l'éthique au sein du gouvernement.

**1.5** Le présent chapitre ne vise qu'une partie de la question de l'éthique au sein du gouvernement, l'éthique dans la prise de décisions. L'éthique dans la prise de décisions signifie que les décisions sont prises en toute impartialité et en toute objectivité, et dans l'intérêt public.

**1.6** Le chapitre propose un cadre d'éthique qui reconnaît l'importance des mesures gouvernementales existantes et qui tient compte des résultats des entrevues en profondeur que nous avons menées avec des fonctionnaires sur la sensibilisation à l'éthique et à la fraude. La fonction publique étant un bien public, ce cadre doit faire en sorte que ce principe soit la pierre angulaire de l'administration publique canadienne.

**1.7** Le chapitre présente également les résultats de nos entrevues avec des fonctionnaires de quatre ministères. Ces résultats indiquent qu'au chapitre des normes d'éthique dans la fonction publique, nous partons d'une base solide. Cependant, nous avons trouvé des secteurs vulnérables. Cela nous préoccupe parce qu'ils pourraient constituer une menace pour la base solide que nous avons actuellement.

**1.8** Bien que notre rapport présente des constatations tirées d'entrevues avec des fonctionnaires, il ne serait vraiment pas juste de placer toute la responsabilité du respect des normes d'éthique sur les seuls fonctionnaires. Le leadership des députés, des ministres et des sous-ministres est indispensable pour maintenir les normes d'éthique et le rendement au gouvernement. Le respect de l'éthique au gouvernement incombe aussi à tous ceux qui fournissent des produits et des services au gouvernement ou qui en reçoivent des avantages. C'est pour ces raisons que nous proposons un cadre visant à maintenir et à encourager le respect de l'éthique au gouvernement.



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## Points saillants



Après ce premier cycle annuel de rapports, je consulterai les comités parlementaires et, au besoin, d'autres députés, pour déterminer si le calendrier des rapports est satisfaisant ou s'il y a place à amélioration. Nous examinerons également l'incidence du calendrier sur les activités des ministères.

Nous voulons avant tout servir le Parlement avec promptitude et lui offrir les services les plus appropriés possible. Les modifications apportées à la *Loi sur le vérificateur général* nous ont rapprochés de ce but.

Outre le présent rapport et ceux que j'ai soumis au Parlement en mai et en octobre de cette année, mon Bureau a fourni :

- une opinion et des observations sur les états financiers du gouvernement du Canada;
- un rapport du vérificateur et des observations sur l'état exigé en vertu de la *Loi limitant les dépenses publiques*;
- un rapport du vérificateur et des observations sur l'état des opérations du Compte de service et de réduction de la dette;

- 37 rapports de vérification aux ministères des sociétés d'État énumérées dans l'annexe « E »;

- 13 rapports de vérification aux sous-ministres des établissements publics fédéraux;

- un rapport du vérificateur et des observations sur les états financiers du gouvernement du Territoire du Yukon;
- un rapport du vérificateur et des observations sur les états financiers du gouvernement des Territoires du Nord-Ouest;

- 15 rapports de vérification aux gouvernements territoriaux concernant leurs sociétés;

- sept rapports de vérification aux conseils d'administration d'autres entités canadiennes;

- trois rapports de vérification à la demande du ministre des Finances;

- trois rapports de vérification et un rapport de vérification intermédiaire aux comités directeurs d'organisations internationales.

De plus, en 1995, mon Bureau a terminé 15 examens spéciaux des sociétés d'État énumérées dans

l'annexe « E ».

Aux termes de l'article 11 de la *Loi sur le vérificateur général*, je peux réaliser des missions à la demande du gouverneur en conseil. L'an dernier, j'ai accepté une seule mission de ce genre et en ai terminé une autre, la vérification du Centre de recherches pour le développement international. Les résultats de cette vérification ont été communiqués au Ministre comme le précisait la demande et celui-ci les a rendus publics. Mon Bureau a également produit, à la demande du Bureau du Conseil privé, un rapport spécial sur les arrangements entre le gouvernement du Canada et le gouvernement du Québec pour le partage des coûts associés à la crise d'Oka de juillet 1990; ce rapport a été rendu public par le Bureau du Conseil privé.



## Avant-propos

En juin 1994, la *Loi sur le vérificateur général* a été modifiée pour permettre chaque année le dépôt d'un rapport annuel, de trois rapports supplémentaires au maximum et de rapports spéciaux sur toute affaire importante ou urgente.

Cette modification permet au Bureau du vérificateur général d'améliorer ses services au Parlement. Lorsque le Bureau était restreint à un rapport annuel, les députés avaient parfois à étudier des questions qui étaient déjà désuètes. L'autorisation de déposer jusqu'à trois rapports supplémentaires par an nous permettra de fournir de l'information plus actuelle et plus pertinente sur les résultats de nos travaux.

Puisque le Parlement sera en mesure d'étudier sans tarder les résultats de nos vérifications, des mesures correctives pourront être prises plus rapidement, ce qui pourra se traduire par des économies pour le contribuable. En raison de l'urgence de réduire les déficits et la dette publique, il est important d'être en mesure de démontrer qu'on profite rapidement des possibilités d'épargne cernées.

Je suis heureux de déposer notre rapport annuel. Outre l'avant-propos et les points saillants qui suivent, le Rapport comprend douze chapitres :

- Questions d'une importance particulière — 1995
- Aperçu des programmes de développement économique régional
- Agence de promotion économique du Canada atlantique
- Bureau fédéral de développement régional (Québec)
- Diversification de l'économie de l'ouest Canada
- Industrie Canada : Les programmes de développement régional
- Développement des ressources humaines Canada : Le soutien à la formation
- Affaires indiennes et du Nord Canada : Les immobilisations et leur entretien dans les réserves
- Les fonds renouvelables dans le régime parlementaire : Gestion financière, responsabilisation et vérification
- Revenu Canada : Le nouveau régime de traitement des déclarations de revenus
- Suivi des recommandations formulées dans des rapports antérieurs
- Autres observations de vérification

Cette année, nous avons également publié un rapport au mois de mai et au mois d'octobre. Au cours des prochaines années, nous comptons déposer, outre le rapport annuel, au plus trois rapports (mais pas nécessairement ce nombre).



Avant-propos



difficile période des compressions et des ajustements. Et ce, non seulement pour assurer aux fonctionnaires le milieu de travail humain, ouvert et satisfaisant qu'ils méritent, mais aussi pour faire en sorte que les contribuables bénéficient de ce qu'une fonction publique hautement motivée peut produire.

**135.** Pour les fonctionnaires, le défi est de continuer à innover, à servir l'intérêt public avec motivation et enthousiasme même si leur sécurité d'emploi est moindre.

**136.** Pour les politiciens, le défi est de trouver le juste équilibre entre les mesures

de contrôle de la dette et toutes les autres priorités nationales. Ce sont là des choix difficiles.

**137.** Pour nous tous, le défi est de voir plus loin que nos propres intérêts, c'est-à-dire d'accepter le fait qu'un changement profond touchera tout le monde, et parfois de façon négative. On peut patagner dans l'incertitude, reporter les décisions difficiles, déplorer la perte de nos programmes gouvernementaux favoris et attribuer notre situation aux marchés monétaires internationaux. Ou encore, on peut choisir d'aller de l'avant avec la transformation.

gestion des déchets radioactifs en est un autre exemple. La loi qui régit la Commission de contrôle de l'énergie atomique n'a pas été mise à jour depuis 1946, ce qui fait que la Commission n'est pas explicitement autorisée à demander aux producteurs de déchets nucléaires de mettre de côté des fonds pour couvrir les dix milliards de dollars que coûtera l'élimination de ces déchets. Si cette autorisation avait existé dès l'avènement de la réglementation sur l'industrie nucléaire, le gouvernement fédéral aurait pu éviter des centaines de millions de dollars en passifs éventuels. Si on ne fait rien pour actualiser la loi, les contribuables de demain pourraient avoir à supporter un fardeau encore plus lourd.

127. Les Canadiens s'attendent que le gouvernement régle les problèmes rapidement. Le défi pour le gouvernement — le défi dont j'ai parlé dans tout ce chapitre — est un défi de taille : composer avec des secteurs de programmes difficiles, comme l'environnement, tout en réduisant ses effectifs, en restructurant ses programmes et en améliorant les éléments de base de la gestion publique, comme la gestion et le contrôle financiers. Ce n'est pas une mince tâche, mais elle doit être accomplie.

## Conclusion

128. J'ai commencé ce chapitre en disant que l'« incertitude » était peut-être l'un des deux mots qu'on utilisera dans les années à venir pour décrire le Canada des années 90. L'autre est « transformation ».

129. Nous souviendrons-nous des années 90 surtout comme d'une période d'incertitude ou de transformation? Le choix nous appartient en grande partie.

130. Je vois de nombreuses raisons d'être optimiste, surtout que la plupart des Canadiens semblent maintenant reconnaître la gravité de la situation financière du gouvernement et mieux en comprendre les conséquences. Ils reconnaissent que des changements s'imposent, et cette prise de conscience a donné lieu à de solides appuis à la réorientation du gouvernement. En outre, de plus en plus de gens reconnaissent, au Canada et ailleurs, que la santé du secteur public est la clé du bien-être économique d'un pays.

131. Certains de ceux qui ont accepté l'idée du renouvellement du gouvernement l'ont fait parce qu'ils pensent que « moins le gouvernement est présent, mieux ça va ». Mais la majorité — et j'en suis — y voient la possibilité de réorienter le gouvernement vers les services et les rôles que nous, les Canadiens, avons à cœur.

132. Chacun d'entre nous y trouvera un défi.

133. Pour les vérificateurs législatifs, le défi est de favoriser le processus de changement, pas de le ralentir.

134. Pour les gestionnaires de la fonction publique, le défi est important. Il était beaucoup plus facile de gérer lorsque les ressources n'étaient pas si rares. Le défi le plus important pour les gestionnaires — défi que j'ai fait ressortir dans tout le chapitre — est peut-être celui de se concentrer sur les résultats et de ne pas suivre les processus pour suivre les processus. Il est aussi essentiel que les gestionnaires s'efforcent de maintenir le moral de la fonction publique durant la

Nous souviendrons-nous des années 90 surtout comme d'une période d'incertitude ou de transformation? Le choix nous appartient en grande partie.

Les Canadiens s'attendent que le gouvernement régle les problèmes rapidement.

## L'environnement : un exemple des risques que comporte le report de mesures nécessaires

120. Un sentiment d'urgence devrait

envahir le gouvernement. C'est souvent le

cas, mais parfois, ça ne l'est pas. À titre

d'exemple, signalons que, d'après nos

sujets, la plupart de nos recommandations

finissent par être appliquées de façon

satisfaisante. Comme nous l'avons indiqué

dans notre partie III du *Budget des*

*dépenses*, quelque 20 p. 100 des

recommandations formulées entre 1989 et

1992 ont été pleinement mises en oeuvre

et 43 p. 100 se sont traduites par des

progrès satisfaisants. Le gouvernement

n'était pas d'accord avec nous dans

trois pour cent des cas, et trois pour cent

de nos recommandations n'étaient plus

pertinentes.

121. Mais il reste encore 31 p. 100 de

cas où les progrès ont été insatisfaisants.

122. Il est essentiel de se presser à

l'heure où nous efforçons d'avoir un

gouvernement efficace et à la mesure de

nos moyens. Les questions prioritaires

méritent d'être traitées en priorité. Le

dilemme est que les réductions de

personnel et de ressources accroissent la

possibilité que les mesures nécessaires

soient reportées au moment même où il

est extrêmement important d'agir

rapidement. Un domaine où le report des

mesures nécessaires peut de toute

évidence avoir des conséquences graves

est celui du contrôle de la dette, dont j'ai

parlé en début de chapitre.

123. L'environnement est un autre

secteur où le report des mesures

nécessaires comporte des risques

considérables. C'est le message qui se

dégage de nos chapitres de mai sur la

gestion des déchets (chapitre 2, « Environnement Canada : Les déchets dangereux — la gestion d'un lourd héritage », et chapitre 3, « La gestion des déchets radioactifs par le gouvernement fédéral »). Je crois que ces questions devraient être traitées de façon plus urgente.

124. Considérons les faits suivants :

• Le Canada progresse lentement dans

sa recherche de solutions permanentes

pour l'élimination des déchets radioactifs

dangereux et des BPC.

• Nous continuons de recourir à des

solutions d'entreposage temporaire pour

les déchets radioactifs et les BPC, ce qui

accroît les coûts, ainsi que les risques pour

le public.

• Le gouvernement fédéral met du

temps à régler ses propres problèmes de

déchets.

• Le financement de la dépollution des

sites contaminés a pris fin sans qu'il

n'existe de plans clairs pour l'achèvement

de la dépollution.

**Qui paiera : le pollueur ou le**

**contribuable?**

125. Je m'inquiète particulièrement du

fait que peu de mesures ont été prises pour

protéger les intérêts des contribuables

d'aujourd'hui et de demain. Dans

beaucoup de cas, les entreprises n'ont pas

voulu ou n'ont pas pu payer ce qu'il en

coûtait pour nettoyer leurs déchets,

laissant la facture aux contribuables. Les

coûts de la gestion des déchets sont

renversants : on prévoit que la seule

élimination des déchets radioactifs coûtera

au moins dix milliards de dollars.

126. Le report des mesures accroît le

risque que les coûts de la gestion des

déchets soient supportés par les

contribuables, pas par les pollueurs. La

Les coûts de la  
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rapidement.



Nous avons examiné  
des questions  
environnementales  
sous presque tous les  
angles possibles et  
imaginables.

Aucun autre  
vérificateur législatif  
ne s'est vu confier  
expressément la  
gamme complète de  
responsabilités  
proposées pour le  
commissaire.

**117.** Les modifications obligeront les ministères à préparer des stratégies et des plans d'action en matière de développement durable, qui seraient déposés au Parlement par le ministre responsable. Les ministres disposeraient de 120 jours pour répondre aux questions formulées par le public sur des questions liées au développement durable.

**118.** Les modifications imposeraient aussi de nouvelles responsabilités importantes à mon Bureau, responsabilités qui constituent un prolongement naturel de nos vérifications environnementales actuelles. Les modifications créeraient le poste de commissaire à l'environnement et au développement durable. Le titulaire serait nommé par le vérificateur général et il relèverait de ce dernier. Au nom du vérificateur général, le commissaire surveillerait les stratégies des ministères, les plans d'action et l'état des réponses aux pétitions du public. Les travaux du commissaire feraient l'objet d'un nouveau rapport annuel « vert ». Les modifications proposées maintiendront l'indépendance et le rôle traditionnels de mon Bureau : le commissaire n'aurait pas à juger du pour et du contre des politiques, à régler les différends en tant que protecteur du citoyen, pas plus qu'il n'aurait à examiner des questions ne relevant pas des compétences fédérales.

**119.** Au Bureau, nous considérons qu'il est important de rester à l'avant-scène de la vérification législative internationale. Autant que je sache, aucun autre vérificateur législatif ne s'est vu confier expressément la gamme complète de responsabilités proposées pour le commissaire.

des gens pensent « comptabilité ». Peut-être pensent-ils aussi aux trois « E » : économie, efficacité et éthique. Beaucoup sont surpris d'apprendre qu'au cours des dernières années, nous avons mis un accent considérable sur un quatrième « E » : l'environnement, une question qui préoccupe beaucoup les Canadiens.

**114.** Au cours des dix dernières années, nous avons, dans divers chapitres, examiné des questions environnementales sous presque tous les angles possibles et imaginables — opérationnels, financiers, juridiques et comptables — dans le cadre de notre mandat qui est de signaler les questions d'importance au Parlement.

**115.** Nous avons maintenu cette approche pour les vérifications dont nous avons rendu compte cette année. En octobre, nous avons fait état des éléments que doivent comporter des systèmes de gestion de l'environnement bien conçus (chapitre 11, « Les systèmes de gestion de l'environnement : Une approche fondée sur des principes »). En mai, nous avons publié deux chapitres sur la gestion des déchets — un sujet dont je reparte dans la prochaine section.

## Plus de visibilité pour la vérification environnementale

**116.** En avril, des modifications à la Loi sur le vérificateur général ont été introduites dans le cadre des mesures prises en vue d'un « écoulement » Au moment de mettre le présent rapport sous presse, les modifications étaient passées en deuxième lecture à la Chambre des communes et le Comité permanent sur l'environnement et le développement durable de la Chambre avait commencé à tenir des audiences sur le sujet.



Les recommandations  
du Comité des  
comptes publics  
appellent  
d'importantes  
améliorations, que  
j'appuie.

Secrétariat du Conseil du Trésor, pourrait  
générer des économies considérables.

108. Un exemple d'économies

moindres, mais tout de même importantes,

est fourni dans le chapitre 7 de notre

rapport de mai (« Les déplacements et

l'accueil ». On y souligne plusieurs

possibilités, pour le gouvernement, de

réduire ses frais de déplacement de

dizaines de millions de dollars par année

en rationalisant et en automatisant

l'administration des déplacements, en

negociant des rabais sur les billets

d'avion, en utilisant d'avantage les

voyages notifiés et en faisant une plus

grande utilisation de la classe

économique. Il ne sera pas nécessairement

facile de réduire les frais de déplacement;

il faudra de l'information de meilleure

qualité, plus d'innovations et une

collaboration accrue entre les organismes

centraux et les ministères.

**Renforcement du régime fiscal**

109. L'an dernier, j'ai souligné  
l'importance de protéger l'intégrité de  
l'assiette fiscale, l'un des actifs les plus  
précieux d'un pays moderne comme le  
Canada. J'ai formulé de nombreuses  
inquiétudes au sujet de notre régime fiscal  
en me fondant sur les travaux effectués  
par le Bureau au fil des ans.

110. Je suis heureux de l'intérêt que  
les parlementaires et le gouvernement ont  
depuis manifesté pour cette question,  
particulièrement par le fait que le ministre  
des Finances a inclus la réponse du  
gouvernement à nos préoccupations dans  
les documents budgétaires de février. En  
outre, le Comité des comptes publics a  
tenu plusieurs audiences sur la politique  
fiscale et sur l'administration du régime,  
et publié trois rapports. Les  
recommandations du Comité appellent  
d'importantes améliorations, que j'appuie.  
Je constate aussi avec plaisir que Revenu

Canada a fait rapport au Comité de ce  
qu'il a fait pour faire avancer les  
initiatives d'observation proposées dans  
mon rapport de 1994. Le Ministère a  
également fait connaître les mesures qu'il  
appliquerait pour percevoir les recettes  
fiscales au cours des deux prochaines  
années. Ces mesures devraient aider le  
Comité à faire le suivi de ses  
préoccupations et de ses recomman-  
dations.

111. Le gouvernement doit toujours

administrer le régime fiscal avec fermeté,

équité et vigilance. Je l'ai dit l'an passé et

je le répète à la lumière des constatations

de cette année. Le chapitre 16 de notre

rapport d'octobre (« Revenu Canada :

Taxe de transport aérien ») signale des

problèmes liés à l'administration de la

taxe de transport aérien qui ont entraîné la

perte de millions de dollars en recettes et

qui pourraient mener à une application

non uniforme de la taxe. Le chapitre 25

(« Le nouveau régime de traitement des

déclarations de revenus ») du présent

rapport fait état de nos préoccupations au

sujet des risques que présente le nouveau

régime de traitement des déclarations

d'impôt sur le revenu des particuliers de

Revenu Canada.

112. Améliorer le rendement de notre

régime fiscal, notamment maintenir

l'intégrité de notre assiette fiscale, est un

processus continu qui peut aider le

gouvernement à composer avec sa

situation financière. Cet objectif est

l'affaire de tout le monde, tant de ceux qui

se servent et qui bénéficient du régime

que de ceux qui le conçoivent et

l'administent.

**L'environnement : notre  
quatrième « E »**

113. Il suffit de mentionner le Bureau  
du vérificateur général pour que la plupart

L'amélioration de la  
gestion des projets de  
technologie de  
l'information, selon les  
plans du Secrétariat  
du Conseil du Trésor,  
pourrait générer des  
économies  
considérables.

(chapitre 26, « Suivi des recommandations formulées dans des rapports antérieurs ») révèle que le Ministère a donné suite à beaucoup de recommandations, notamment qu'il a pris des mesures pour prévenir et recouvrer les plus-payés.

**Possibilités de réduire les coûts**

**106.** Comme nous l'avons fait dans le passé, nous signalons, dans les rapports de cette année, des possibilités de réduire les coûts. Par exemple, en mai (chapitre 6, « Les subventions fédérales au transport »), nous avons signalé que les versements inappropriés au titre des subventions pouvaient être réduits grâce à une évaluation plus rigoureuse des demandes au cours de la période de dissolution du Programme de subventions au transport des marchandises dans la Région atlantique.

**107.** Comme nous l'avons déjà mentionné dans le présent chapitre, le chapitre 12 de notre rapport d'octobre (« Systèmes en développement : Gérer les risques »), fait état de sérieux problèmes au niveau de la gestion des grands projets de technologie de l'information que nous avons vérifiés. Dans sa réponse à ce chapitre, le Secrétariat du Conseil du Trésor écrit qu'il... « a commencé à apporter des modifications au cadre de gestion des grands projets axés sur les technologies de l'information ... Nous sommes convaincus que les améliorations feront accroître de façon significative le taux de réussite des projets informatiques dans l'administration fédérale. » Au cours de la prochaine décennie, le gouvernement complètera le développement de 25 grands systèmes dont le coût total est évalué à 2,1 milliards de dollars. L'amélioration de la gestion des projets de technologie de l'information, selon les plans du

dans certains cas et pas dans d'autres. On ne sait pas trop non plus dans quelle mesure ces programmes de formation complètent d'autres programmes, comme les programmes de développement économique régional.

**103.** J'incite fortement les parlementaires à examiner nos travaux sur le développement économique régional. Il ne suffit pas de se demander si les problèmes opérationnels ont été réglés. Si l'on veut que les changements en cours portent fruit, il faut plutôt se demander s'il est probable que les programmes produisent les résultats attendus et comment il faut faire pour savoir si c'est le cas.

**Trouver de l'argent en réduisant les coûts et en renforçant le régime fiscal**

**104.** Compte tenu de la situation financière du gouvernement, il importe plus que jamais de trouver de l'argent en réduisant les coûts et en renforçant le régime fiscal. Au cours de nos travaux de vérification, nous décelons des possibilités inexploitées. Je considère que souligner ces possibilités constitue, pour mon Bureau, une façon importante de contribuer à l'objectif d'un gouvernement à la mesure de nos moyens.

**105.** Je suis heureux de voir que des suites ont été données à certaines des possibilités dont j'ai fait état dans le passé. Par exemple, en 1993, nous avons signalé que les plus-payés de prestations de pension étaient de l'ordre de 120 à 220 millions de dollars par année. Par la suite, le Comité des comptes publics a demandé à Développement des ressources humaines Canada d'apporter certaines améliorations à la gestion des programmes de pension. Notre vérification de suivi



Les gestionnaires doivent gérer en vue d'obtenir des résultats, pas seulement pour se conformer au processus.

Les décideurs n'ont pas eu d'information sur les résultats qui les aurait aidés à orienter les changements.

Sans information adéquate sur les résultats, les Canadiens ne peuvent pas peser le pour et le contre des programmes.

de l'économie de l'Ouest Canada »; chapitre 21, « Industrie Canada : Les programmes de développement régional ». J'aimerais tirer ici quelques leçons pour l'avenir, afin de faire en sorte que les changements en cours soient couronnés de succès.

96. Les chapitres décrivent un certain nombre de problèmes opérationnels importants. Les délais d'approbation sont parfois longs. Quelquefois, les projets ne répondent pas aux critères d'approbation énoncés. La coordination de l'évaluation et de la surveillance des projets qui sont financés par plus d'une source gouvernementale pourrait être améliorée.

97. Le public est également sceptique face à ces programmes. Il y a longtemps que les programmes de développement économique régional sont controversés et suscitent des débats qui témoignent de différences marquées sur les plans de l'idéologie et de la politique. D'aucuns soutiennent que les programmes devraient être abandonnés, certains, qu'ils devraient être renforcés et d'autres, que le gouvernement devrait envisager le développement d'une toute nouvelle approche. D'autres encore préconisent le statu quo.

98. Une grande partie de la solution aux deux types de problèmes passe par la mise de l'accent sur les résultats et l'accès à une information de qualité au sujet des résultats.

99. Avec les budgets qui fondent, les exigences qui varient selon l'endroit et les possibilités qui changent constamment, il est important de donner aux gestionnaires une autonomie considérable pour qu'ils puissent prendre des décisions dans un cadre de règles générales. Les gestionnaires doivent gérer en vue d'obtenir des résultats, pas seulement pour se conformer au processus. Cela exige

toutefois qu'ils rendent pleinement compte des activités et des résultats, notamment de la rapidité de l'intervention, des coûts administratifs et des résultats obtenus sur le plan du développement économique. Cela exige aussi que les gestionnaires traduisent les grands objectifs de programme en objectifs précis et mesurables.

### Comment savoir si ces programmes fonctionnent?

100. L'absence d'information adéquate sur les résultats est un problème chronique de ces programmes. Les changements fréquents apportés aux programmes ont compliqué l'évaluation. Par ailleurs, l'absence d'évaluation signifie que les décideurs n'ont pas eu d'information sur les résultats qui les aurait aidés à orienter les changements. Dans les cas où l'information existait, elle était parfois de qualité douteuse. Je suis convaincu qu'il est possible d'améliorer l'information sur les résultats.

101. Une information de qualité sur les résultats devrait au moins aider à élever et à éclairer ce débat public et politique à propos de la valeur de ces programmes. Quels sont exactement les avantages économiques et sociaux qui en résultent? Les projets produisent-ils des avantages à long terme? Les problèmes signalés sont-ils des cas isolés ou sont-ils répandus? Sans information adéquate sur les résultats, les Canadiens ne peuvent pas peser le pour et le contre des programmes.

102. Fait intéressant, c'est à peu près le même message qui se dégage de notre vérification des quelque deux milliards de dollars consacrés annuellement par le gouvernement fédéral au soutien à la formation (chapitre 22, « Développement des ressources humaines Canada : Le soutien à la formation »). On ne sait pas trop pourquoi la formation produit des avantages nets sur le plan de l'emploi

**La solution ne consiste pas nécessairement à affecter plus de ressources à la gestion du programme.**

une contribution devient remboursable, il faut du personnel expérimenté, qui connaisse bien le bénéficiaire et le secteur d'activité. En raison de la réduction de l'effectif, les postes de nombreux employés qui étaient chargés de ces fonctions ont été abolis.

**93.** Je n'ai aucune raison particulière

de croire qu'on trouve partout des exemples de programmes gérés par des ressources insuffisantes. Lorsque la situation se présente, la solution ne consiste pas nécessairement à affecter plus de ressources à la gestion du programme.

Il s'agit souvent de redresser les priorités, d'améliorer les compétences du personnel en place ou de trouver de nouvelles façons de fonctionner. Je soulève cette question parce qu'à mon avis, il est important de demeurer sensible au risque et de reconnaître que la décision d'assurer un programme s'accompagne de l'obligation de le gérer correctement.

## **Développement économique régional : Pourquoi les résultats comptent**

**94.** Les changements sont toute

l'histoire des programmes de développement économique régional au Canada. Et d'autres changements sont en cours, certains découlant du Budget de février 1995.

**95.** Cette année, nous avons accordé

une attention considérable à ces programmes, y consacrant cinq chapitres du présent rapport (chapitre 17, « Aperçu des programmes de développement économique régional »; chapitre 18, « Agence de promotion économique du Canada atlantique »; chapitre 19, « Bureau fédéral de développement régional (Québec) »; chapitre 20, « Diversification

fausses économies : comme on dit, « économetiser les sous et prodiguer les louis ». Il s'agit là aussi d'un manque de souci de l'économie et de l'efficacité.

**91.** Le Comité des comptes publics a

aussi soulevé cette préoccupation dans son neuvième rapport sur le chapitre 33 de mon rapport de 1994 (« Aide fiscale à l'épargne-retraite »). Les montants que l'épargne-retraite sont importants : le gouvernement a estimé à quelque 15 milliards de dollars les montants en recettes fiscales reportées qu'il n'a pas perçus en 1991 à cause du programme.

Dans son rapport, le Comité a manifesté sa surprise d'apprendre que ce programme n'était géré que par trois personnes. Le Comité pense que ce nombre était loin d'être suffisant.

**92.** Un autre exemple nous est fourni

par les travaux que nous avons exécutés cette année concernant les Programmes de contribution financière s'adressant au secteur de la technologie de pointe (chapitre 14 du Rapport d'octobre, « Industrie Canada : Programmes d'assistance aux entreprises — Transition »). Les quatre programmes que nous avons vérifiés faisaient partie des 43 programmes financés par le Ministère qui ont pris fin ou qui n'ont pas été reconduits dans le Budget de février 1995.

Nous craignons qu'en se retirant de ces secteurs, le Ministère sous-gère les obligations qui lui restent. Par exemple, aux termes de ces quatre programmes, des contributions de 100 millions de dollars devront être payées au cours des trois prochaines années et environ 75 millions de dollars pourraient être remboursables au cours des dix prochaines années, suivant un ensemble complexe de modalités. Pour veiller à ce que seuls les coûts admissibles donnent lieu à des paiements et pour déceler le moment où



Peu de choses me gênent davantage que de trouver des exemples de coordination et de coopération insuffisantes entre les organisations du gouvernement fédéral.

La sous-gestion peut permettre de réaliser des économies à court terme en s'exposant à des problèmes à plus long terme beaucoup plus graves.

les résultats dans le contexte des programmes de développement économique régional.

L'information sur l'intendance

84. Le besoin d'information sur

l'intendance des ministères — j'entends par là un rapport complet bien que concis sur les activités et les résultats du

ministère — reste largement insatisfait. Je reste convaincu qu'il faudrait faire avancer les concepts et l'application de la reddition de comptes. Le gouvernement a annoncé que des améliorations seraient

apportées sous peu à son processus budgétaire dans le cadre du remaniement de son système de gestion des dépenses.

La gestion de compétences fédérales et provinciales qui se chevauchent

85. La gestion de compétences

fédérales et provinciales qui se

chevauchent reste un point important.

L'année dernière, j'ai présenté un certain nombre d'exemples de solutions pratiques et rentables à l'inévitable, et parfois souhaitable, chevauchement des compétences dans un État fédéral.

Coopération interministérielle

86. Encourager la coopération

interministérielle reste une priorité

importante, et souvent frustrante. Peu de

choses me gênent davantage que de trouver des exemples de coordination et de coopération insuffisantes entre les organisations du gouvernement fédéral au sujet des opérations et des politiques.

Dans des déclarations publiques récentes, un certain nombre de hauts fonctionnaires ont reconnu que c'est une question à laquelle il faut s'attaquer en priorité.

Renouvellement de la fonction publique

87. Comme je l'ai dit dans le premier

chapitre de rapports antérieurs, il demeure urgent de moderniser les structures, les méthodes et les systèmes administratifs internes, y compris la gestion des

ressources humaines. Comme le dit le Greffier du Conseil privé dans son *Troisième rapport annuel au Premier Ministre sur la fonction publique du Canada*, « parmi les défis que devra relever la fonction publique, le plus important consistera peut-être à s'assurer qu'elle demeurera une institution nationale moderne et dynamique ».

88. Je crois que l'initiative de renouvellement aurait beaucoup plus de chances de réussir si le gouvernement effectuait régulièrement des évaluations systématiques des progrès réalisés par rapport à ses objectifs et s'il en faisait rapport, et si le Parlement examinait activement cette information.

Les risques de la « sous-gestion »

89. Les Canadiens en sont venus à

s'attendre que les rapports du vérificateur général foisonnent d'exemples d'opérations gouvernementales pléthoriques : trop de personnel, inefficience et dépenses extravagantes. Dans notre jargon de vérificateur, nous considérons ces exemples comme un

manque de souci de l'économie et de l'efficacité.

90. Dans cette ère de restrictions

financières, je me préoccupe également de la situation inverse, où les ressources consacrées aux fonctions de base d'un programme peuvent être insuffisantes pour faire le travail. On peut alors parler du risque de sous-gérer les programmes — de réaliser des économies à court terme en s'exposant à des problèmes à plus long terme beaucoup plus graves.

Les arrangements conjoints sont si complexes qu'ils exigent des objectifs précis et une définition claire des résultats attendus.

personnes qui exécutent les projets de l'ACDI sur le terrain à définir les résultats et leur responsabilité à l'égard de l'atteinte de ceux-ci.

80. La reddition de comptes dans le secteur public est toujours un défi; la complexité liée à l'exécution de programmes avec d'autres parties rend le défi encore plus grand. Ironiquement, c'est peut-être là que nous verrons les concepts et l'application de la reddition de comptes faire les progrès les plus marqués, pour la simple raison que les arrangements conjoints sont si complexes qu'ils exigent des objectifs précis et une définition claire des résultats attendus.

## Mesures prises à l'égard des problèmes de longue date

81. Les personnes qui lisent attentivement mes rapports annuels y verront une continuité dans les préoccupations que je soulève chaque année dans ce chapitre. Dans la présente section et dans d'autres, je fais une mise à jour des questions épineuses dont j'ai discuté dans des rapports antérieurs. Par manque d'espace, je ne répéterai pas tous mes points de vue sur les questions soulevées dans le passé. Néanmoins, il est aussi important que j'ajoute de travailler à les régler.

## La mesure des résultats

83. La nécessité d'améliorer la façon dont le gouvernement mesure les résultats était un des grands thèmes du premier chapitre en 1993. J'y ai discuté des progrès limités de l'évaluation de programme. Le gouvernement s'est engagé à fournir une mise à jour au Comité des comptes publics cet automne. Nous examinerons la question plus avant et en ferons rapport en 1996. Plus loin dans ce chapitre, je discute de l'importance vitale de l'information sur

dès le départ sur les rôles et les responsabilités des parties et sur les résultats à obtenir.

77. Il est tout à fait opportun que je revienne sur ces questions, parce que mon rapport d'octobre fait état de nos plus récents travaux sur l'Agence canadienne de développement international (ACDI) (chapitre 13, « Suivi échelonné du Rapport du vérificateur général de 1993 — Phase I »).

78. Beaucoup d'entre vous se rappelleront qu'il y a eu, dans le passé, de profonds désaccords entre l'ACDI et mon Bureau sur la question de la reddition de comptes. Lors des audiences du Comité des comptes publics, en 1991, l'ACDI avait refusé d'accepter la responsabilité des résultats d'un projet d'usine d'épuration de charbon au Pakistan. Selon l'Agence, de nombreux facteurs échappaient à son contrôle, parce que d'autres parties participaient au projet. Le chapitre 12 de mon rapport de 1993 soulignait que l'ACDI devait clarifier l'obligation qu'elle avait de rendre des comptes au Parlement à l'égard de ses résultats, de même que les obligations redditionnelles du personnel de l'ACDI et de ses partenaires.

79. Le chapitre d'octobre de cette année traite de notre suivi des efforts déployés par l'Agence pour gérer en vue d'obtenir des résultats et mieux s'acquitter de son obligation redditionnelle grâce à une meilleure communication de ses résultats. Je suis particulièrement heureux que l'ACDI ait clairement reconnu sa responsabilité à l'égard des résultats à atteindre et de l'information à communiquer à ce sujet. Les mesures initiales que l'ACDI a prises à son administration centrale en vue d'une gestion axée sur les résultats sont un pas dans la bonne direction. Les prochaines étapes sont cruciales. Il s'agit d'aider les

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70. Le gouvernement doit résoudre les cas de mandats flous et conflictuels. Il doit formuler des attentes à long terme pour chaque société et donner à ces sociétés la latitude nécessaire pour répondre à ces attentes. Le gouvernement — tout comme le Parlement — a un rôle à jouer en tant que partisan d'une meilleure intendance. Si l'on ne se sert pas de l'information fournie, les efforts pour établir des plans clairs et communiquer de l'information de qualité n'iront vraisemblablement pas très loin.

71. Il est important d'améliorer l'intendance des sociétés d'État non seulement parce que cela renforcerait la gestion en général des sociétés d'État, mais aussi parce que l'on pourrait appliquer à d'autres modèles d'activités gouvernementales — par exemple, les organismes de service spéciaux et les fonds renouvelables — modèles qui font partie intégrante de l'évolution du gouvernement.

72. L'évolution du gouvernement se traduit aussi par une participation plus grande d'autres parties à la conception et à l'exécution des programmes fédéraux. Les exemples ne manquent pas : les programmes conjoints fédéraux-provinciaux, la sous-traitance, l'exécution de programmes par des organisations non gouvernementales, la délégation de

## Programmes conjoints : il faut une meilleure reddition de comptes

programmes à des groupes clients. Dans le Budget de février 1995, le gouvernement a annoncé un certain nombre de mesures visant à augmenter la participation d'autres parties à l'exécution des programmes fédéraux.

73. Les programmes conjoints peuvent offrir de nombreux avantages. L'interaction de différentes parties, chacune avec des forces et des perspectives différentes, peut améliorer considérablement le service aux clients et faire économiser de l'argent. Elle apporte également des défis supplémentaires. C'est pourquoi, depuis quelque temps, je me préoccupe de la reddition de comptes à l'égard de ces programmes.

74. Un principe fondamental sous-tend tous les programmes : le gouvernement reste responsable devant le Parlement de l'argent dépensé, quels que soient l'endroit ou la manière dont il l'a été. Prenons deux ministères : l'un finance et exécute lui-même un programme au complet, l'autre participe à beaucoup d'autres programmes conjoints avec reddition de comptes dans le dernier cas sera plus difficile, mais devrait-elle être moins attendue?

75. Qu'est-ce que ce principe signifie, en pratique? D'abord, il suppose la responsabilité de communiquer au Parlement et aux Canadiens de l'information sur l'utilisation de l'argent des contribuables, tant sur ce qu'on a fait que sur ce qu'on a obtenu.

76. Ensuite, lorsque le gouvernement participe à des arrangements conjoints, il doit prendre toutes les mesures raisonnables pour garantir que les résultats escomptés seront atteints. Rendre des comptes, ce n'est pas seulement reconnaître les problèmes après coup, c'est également aider à les éviter. En particulier, il est important de s'entendre



faut poursuivre de telles initiatives avant d'envisager de légiférer.

**63.** L'éthique au gouvernement est

une question complexe et controversée. C'est pourquoi il est si important d'en discuter ouvertement et de travailler activement à la promouvoir — par les paroles et par les gestes.

## Pour une meilleure intendance dans les sociétés d'Etat

**64.** Même avec les récentes

privatisations, le portefeuille des sociétés d'Etat reste considérable. Il existe

48 sociétés mères, qui comptent plus de 1 15 000 employés et dont l'actif, en excluant la Banque du Canada, s'élève à 57 milliards de dollars. Les crédits parlementaires alloués à ces sociétés atteignent en moyenne 5 milliards de dollars par an. La dette des sociétés d'Etat a augmenté beaucoup ces dernières années — jusqu'à 33 p.100 depuis 1990; elle atteint maintenant un total de 38 milliards de dollars.

**65.** Nos responsabilités de

vérification — par le biais des vérifications annuelles des états financiers et, depuis 1984, par les examens spéciaux des sociétés d'Etat effectués tous les cinq ans — nous fournissent une perspective unique de ce secteur d'activité gouvernementale. En octobre, j'ai fait une évaluation des questions auxquelles ce secteur se trouve confronté (chapitre 10, « Sociétés d'Etat : S'acquitter des responsabilités en matière d'intendance »). Globalement, nous continuons de penser que le cadre de contrôle et de responsabilisation des sociétés d'Etat est bon. La situation s'est beaucoup améliorée par rapport à ce qu'elle était avant l'introduction du cadre en 1984.

**D'importantes questions restent à régler**

**66.** Cependant, il reste d'importantes

questions à régler — des questions semblables à celles que nous avons signalées dans divers chapitres depuis 1989. Bien que ce dernier cycle de cinq ans d'examens spéciaux nous ait révélé moins de lacunes au niveau des opérations, des ressources humaines et de la gestion de l'actif, nous avons constaté qu'un grand nombre de sociétés d'Etat ne possédaient pas de mandats clairement articulés ni d'objectifs mesurables, et que la communication des résultats était

inadéquate.

**67.** Il faut trouver de nouvelles manières de traiter ces questions. À mon avis, une meilleure intendance des sociétés d'Etat est au coeur de la solution. Je veux dire que chaque partie intéressée — direction, conseils d'administration, gouvernement et Parlement — doit jouer un rôle plus actif dans l'intendance des sociétés d'Etat.

**68.** La direction doit montrer la voie pour produire et communiquer de l'information sur le rendement. Il ne suffit pas que les gestionnaires aient une bonne idée des résultats à partir de leurs observations quotidiennes. Nous parlons d'institutions qui ont des rôles à jouer dans l'intérêt public, avec les derniers publics et, par conséquent, les gestionnaires devraient montrer non seulement ce qu'ils ont fait mais également ce qu'ils ont atteint.

**69.** Les conseils d'administration

doivent devenir plus proactifs. Certains le sont déjà, et d'autres devraient suivre leurs traces. Les administrateurs, dont beaucoup sont nouvellement nommés au conseil, doivent acquérir une bonne connaissance de la société d'Etat, des risques qu'elle court et des possibilités qui lui sont offertes. Les conseils doivent faire pression sur la direction pour obtenir une

**Le cadre de contrôle et de responsabilisation des sociétés d'Etat est bon.**

**Un grand nombre de sociétés d'Etat ne possédaient pas de mandats clairement articulés ni d'objectifs mesurables, et la communication des résultats était inadéquate.**



Étant donné qu'il y  
aura moins de règles  
et de contrôles  
traditionnels, il est  
essentiel d'avoir des  
valeurs et une éthique  
solides.

Il existe une solide  
base d'éthique. Mais,  
nous avons également  
trouvé certains  
secteurs vulnérables.

préoccupation l'année dernière au sujet du  
personnel scientifique (chapitre 11,  
« La gestion du personnel scientifique  
dans certains établissements de recherche  
fédéraux »).

56. Mais je reconnais également qu'il

existe des raisons tout à fait légitimes de  
faire preuve de prudence. Les ministères  
sont-ils en mesure d'accepter d'autres  
responsabilités? La délégation des  
pouvoirs aux ministères correspond-elle à  
une délégation appropriée au sein des  
ministères? Les gestionnaires sont-ils  
adéquatement encouragés à obtenir des  
résultats? Existe-t-il des mécanismes  
redimensionnels appropriés pour faire en  
sorte que la décentralisation ne mène pas à  
l'abus ou à d'autres problèmes? Les  
organismes centraux sont-ils en mesure,  
lorsque c'est nécessaire, d'exercer un  
contrôle pour faire en sorte que les  
objectifs et les priorités du gouvernement  
soient atteints?

57. Ces questions sont extrêmement  
importantes pour l'avenir du  
gouvernement fédéral; elles méritent  
qu'on y attache plus d'attention.

## Normes d'éthique au sein du gouvernement

58. En mai, nous avons publié une  
étude sur la sensibilisation à l'éthique et à  
la fraude au gouvernement (chapitre 1,  
« La sensibilisation à l'éthique et à la  
fraude au gouvernement »). J'ai entrepris  
cette étude parce que les Canadiens se  
préoccupent des questions d'éthique au  
sein du gouvernement et j'ai pensé qu'il  
était important de susciter une bonne  
discussion sur la question. Cette question  
est également importante, parce que les  
changements au sein du gouvernement  
donnent aux fonctionnaires plus de  
latitude pour agir : on parle maintenant  
d'« habilitation ». Étant donné qu'il y aura

moins de règles et de contrôles  
traditionnels, il est essentiel d'avoir des  
valeurs et une éthique solides.

59.

D'autres démocraties débattent  
des questions d'éthique. Par exemple, en  
mai 1995, le premier rapport du  
Committee on Standards in Public Life de  
Grande-Bretagne a été publié; on y  
discutait des normes d'éthique des  
députés, des ministres, des fonctionnaires  
et des chefs d'organes exécutifs.

Nous devons rester vigilants

60. Nous avons constaté qu'il existe

une solide base d'éthique parmi les  
fonctionnaires, dans les quatre ministères  
que nous avons examinés. Et, ce qui n'est  
pas surprenant, nous avons également  
trouvé certains secteurs vulnérables. Si  
nous ne nous attaquons pas à ces secteurs  
vulnérables, nous risquons d'avoir des  
problèmes d'éthique beaucoup plus graves  
à l'avenir. Bien qu'à mon avis le  
gouvernement canadien n'ait rien à envier  
aux autres gouvernements et au secteur  
privé, je pense que nous devons rester  
vigilants.

61.

Le chapitre souligne qu'il ne  
serait pas juste de placer sur les seuls  
fonctionnaires la responsabilité du  
maintien des normes d'éthique. Le

leadership des ministres et des  
sous-ministres est indispensable. Je fais  
également ressortir que le gouvernement  
ne vit pas en vase clos. Ceux qui lui  
fournissent des biens et des services et  
ceux qui en reçoivent des avantages ont  
également un rôle à jouer dans le maintien  
de l'éthique au gouvernement.

62.

Nous avons discuté de la  
nécessité d'un cadre d'éthique, incluant  
des éléments comme un énoncé de  
principes clairs et une formation éthique,  
qui sensibiliserait davantage aux questions  
d'éthique et aiderait à prévenir les  
problèmes dans ce domaine. Je pense qu'il

ces projets met à rude épreuve les gestionnaires de projets et les entrepreneurs les plus expérimentés. Des projets de longue durée — mesurés en années, pas en mois — signifient que les systèmes sont souvent désuets avant même la fin de leur développement. Des quatre systèmes que nous avons examinés pour le chapitre d'octobre, un a été éliminé, un autre compte peu d'utilisateurs et un troisième nécessite continuellement des mesures correctives. À notre avis, un seul de ces quatre systèmes est géré de manière à bien tenir compte des risques qu'il présente.

Est-ce que plus petit c'est mieux ?

**51.** Actuellement, le gouvernement a 25 systèmes dont la mise en oeuvre doit être terminée d'ici les cinq à dix prochaines années et dont le coût total prévu est de 2,1 milliards de dollars. D'après l'expérience des secteurs privé et public, une approche modulaire peut produire les avantages des technologies de l'information, et ce, avec bien moins de risques. Les systèmes peuvent être conçus et financés par étape, et un usage accru des logiciels et des éléments commerciaux déjà éprouvés peut être fait. Étant donné que les projets durent beaucoup moins longtemps, des avantages tangibles peuvent être obtenus plus tôt. Ces avantages peuvent servir à financer les prochaines étapes du développement et, par conséquent, réduire le risque pour les derniers publics.

**52.** En 1994, le Dirigeant principal de l'information du gouvernement a publié le *Plan directeur pour le renouvellement des services gouvernementaux à l'aide des technologies de l'information*. Ce plan constitue un cadre détaillé pour l'utilisation des technologies de l'information à l'appui du renouvellement

du gouvernement. Il propose également de se tenir loin des grands projets et d'avoir plus souvent recours à une méthode par étape pour le développement des systèmes.

**53.** Pour que les projets de technologies de l'information contribuent comme prévu au renouvellement du gouvernement, ce dernier doit mieux gérer les risques. Le gouvernement ne doit pas se faire d'illusions sur ce que les systèmes coûtent réellement ni sur ce qu'ils peuvent faire.

## Équilibrer la centralisation et la décentralisation de l'administration

**54.** Au gouvernement, comme dans d'autres organisations, il s'exerce constamment des pressions pour centraliser les pouvoirs dans des organismes centraux comme le Secrétariat du Conseil du Trésor et la Commission de la fonction publique, ainsi que des pressions pour décentraliser les pouvoirs et les déléguer aux ministères dits opérationnels. Comme cela s'est produit ailleurs dans les secteurs privé et public, l'administration fédérale a connu au cours de la dernière décennie une importante décentralisation des pouvoirs administratifs. La tendance à la décentralisation semble se poursuivre.

**55.** Je pense qu'il existe de bonnes raisons de continuer la décentralisation des pouvoirs administratifs. Bon nombre de ministères sont assez importants pour être en mesure d'assumer une plus grande autonomie. Et les gestionnaires ministériels ont besoin de latitude pour faire face à des changements rapides et constants. J'ai formulé la même

Le gouvernement ne doit pas se faire d'illusions sur ce que les systèmes coûtent réellement ni sur ce qu'ils peuvent faire.

Les gestionnaires ministériels ont besoin de latitude pour faire face à des changements rapides et constants.

La gestion des technologies de l'information est en effet un domaine hasardeux.

Dans ces grands projets, presque tout augmente le risque d'échec.

Ils répondent rarement aux attentes qu'ils avaient créées à l'origine.

autre tactique. Dans la conjoncture actuelle, il est extrêmement important d'avoir une gestion et un contrôle financiers solides. Je suis heureux que nos discussions avec les représentants du Secrétariat du Conseil du Trésor aient abouti à un projet éventuel de collaboration avec ceux-ci et avec les agents financiers supérieurs afin de rendre la gestion financière plus efficace. Cela comprend l'élaboration de normes pour la gestion et le contrôle financiers, l'évaluation de l'état actuel de la gestion financière en regard de ces normes, la détermination des aptitudes et de l'expérience qu'on exigera du personnel financier, et l'élaboration de mesures précises pour améliorer la situation de la gestion et du contrôle financiers.

### Meilleure gestion des technologies de l'information

**44.** Les technologies de l'information sont une part essentielle du renouvellement du gouvernement, car elles lui permettent d'offrir des services améliorés tout en l'aidant à composer avec la réduction des ressources. La plupart des organisations sont devenues largement ou totalement dépendantes de leurs systèmes informatiques.

**45.** Les défis que posent les technologies de l'information sont brièvement résumés dans le titre du chapitre 8 de mon rapport de 1994, « Profiter des avantages et gérer les risques ». La gestion des technologies de l'information est en effet un domaine hasardeux. D'après des statistiques des États-Unis, quelque neuf pour cent seulement de tous les systèmes des grandes organisations sont livrés à temps et dans les limites du budget. Près du tiers sont abandonnés ou annulés avant d'être terminés. Cependant, les avantages que les technologies de l'information peuvent

apporter sont trop importants pour qu'on les ignore.

**46.** En octobre (chapitre 12, « Systèmes en développement »), nous avons fait rapport de notre examen de quatre grandes initiatives en matière de technologies de l'information. Le chapitre résulte d'une nouvelle méthode de vérification proactive de mon Bureau : un examen des systèmes pendant qu'ils sont encore en cours de développement.

### Un tableau inquietant

**47.** Le tableau qui émerge montre qu'on est loin d'en faire assez pour gérer les risques formidables que présentent les projets de développement de technologies de l'information. Le chapitre comporte de nombreux messages importants, dont l'un mérite une attention particulière.

**48.** Imaginez que vous êtes un haut fonctionnaire et que vous êtes confronté à une demande croissante de nouveaux services et un système informatique désuet. Après de nombreux mois de planification, votre personnel des services informatiques vous présente une proposition pour le développement d'un nouveau système. Il s'agit d'un gros projet, qui exige un investissement de taille et dont la mise en oeuvre prendra plusieurs années, mais les avantages prévus en fait d'économie de ressources et d'amélioration du service sont extrêmement intéressants.

**49.** Tentant n'est-ce pas? Eh bien! Justement, il y a depuis quelque temps une forte tendance à choisir ce genre de mégaprojet informatique qui coûte souvent plus de 100 millions de dollars. Mais dans ces grands projets, presque tout augmente le risque d'échec. Ils répondent rarement aux attentes qu'ils avaient créées à l'origine. L'ampleur de



de gestion et de contrôle financiers dans un large éventail d'opérations gouvernementales. Ces trois dernières années, nous avons constaté : des possibilités de réduire les coûts de plus de 100 millions de dollars par an en gérant mieux les biens immobilisés; un manque d'information pour gérer les ressources et contrôler les coûts; des cas où les agents financiers supérieurs — les personnes responsables de la fonction de la gestion financière dans les ministères — ne participaient pas suffisamment à d'importantes décisions; peu de progrès jusqu'à récemment en ce qui concerne l'élaboration d'un nouveau système central de comptabilité après huit ans d'efforts.

38. Etant donné l'importance que j'attache à une gestion financière rigoureuse, particulièrement en cette période de réduction des ressources et de restructuration, je publierai une série de rapports sur certaines questions de gestion et de contrôle financiers au cours des quelques prochaines années.

### Les défis qu'entrevoient les agents financiers supérieurs

39. Afin de se préparer pour ce travail, les membres de mon personnel ont discuté récemment avec un certain nombre d'agents financiers supérieurs. Les défis auxquels la gestion financière se trouve confrontée aujourd'hui confirme un certain nombre de mes propres préoccupations.

40. De ces discussions a émergé un tableau où l'environnement de la gestion financière change considérablement. Par exemple :

- On note dans les organisations un accroissement de la délégation de pouvoirs et de l'habilitation de tous les employés, mais pas de resserrement de

l'obligation de rendre compte des résultats financiers.

- Les agents financiers supérieurs disent préoccupés de la récente perte d'une partie importante du personnel financier expérimenté.
- Les agents financiers supérieurs souhaitent un leadership plus ferme de la part du Secrétaire du Conseil du Trésor et de meilleures relations de travail, particulièrement dans le domaine de l'établissement des normes et du soutien à la qualité de la gestion financière. Selon certains agents financiers supérieurs, les compressions et la restructuration qui sont survenues au sein du Secrétariat du Conseil du Trésor ont eu un effet sur sa capacité de faire preuve de leadership et de faire sentir son influence.

41. Il y a aussi des signes positifs. Je suis particulièrement heureux de voir que les agents financiers supérieurs voient leur rôle évoluer dans une direction qui le rapproche de celui de leurs homologues du secteur privé. Je crois depuis longtemps qu'un agent financier supérieur influent est aussi important dans le secteur public que dans le secteur privé.

42. Ces agents financiers supérieurs assument un rôle plus vaste et plus stratégique pour diverses raisons :

- « commercialisation » accrue, réduction considérable des ressources et, dans un grand nombre de cas, redéfinition fondamentale des secteurs d'intervention ministériels. Un changement important est le rôle central que certains agents financiers supérieurs jouent dans la conception et l'intégration des systèmes et des contrôles de l'organisation.

43. Les efforts des 20 dernières années pour améliorer la gestion et le contrôle financiers ont porté fruit dans une certaine mesure. Mais il est temps que le gouvernement et le Bureau utilisent une

Les efforts des 20 dernières années pour améliorer la gestion et le contrôle financiers ont porté fruit dans une certaine mesure.

Les agents financiers supérieurs souhaitent un leadership plus ferme de la part du Secrétaire du Conseil du Trésor.



Il y a des signes évidents que de grands changements ont commencé.

Mon personnel continue de trouver de graves problèmes de gestion et de contrôle financiers dans un large éventail d'opérations gouvernementales.

plus ambitieux, et de loin, à être présente dans un budget depuis la démobolisation après la Seconde Guerre mondiale. » De nombreux gouvernements provinciaux prennent les mêmes mesures.

29. Comme on dit, « une hirondelle ne fait pas le printemps », pas plus qu'un budget ne représente nécessairement un changement fondamental. Mais il y a des signes évidents que de grands changements ont commencé. Ce budget reflétait des décisions prises à l'issue d'un exercice appelé examen des programmes, qui posait des questions de fond sur chaque programme du gouvernement. Je suis heureux d'apprendre que ce processus a entraîné un remaniement fondamental de chaque programme plutôt que des réductions générales, approche que j'ai critiquée dans des rapports antérieurs.

30. Qu'ils surviennent rapidement ou non, de grands changements semblent inévitables, non seulement à cause de la situation financière du gouvernement mais également à cause de facteurs comme la mondialisation, les changements démographiques et les autres changements sociaux et le rythme des progrès technologiques. Dans tout le monde occidental, le gouvernement est repensé, réinventé et restructuré pour à peu près les mêmes raisons qu'ici.

31. Repenser, réinventer ou restructurer — quelle que soit l'action choisie — le processus est difficile. Il ne s'agit pas seulement d'éliminer des programmes ou de les remanier. Il ne s'agit pas non plus seulement d'un pénible exercice de licenciement de personnel.

32. Il s'agit de prendre des mesures pour améliorer les composantes qui sont au cœur de la gestion gouvernementale — comme la gestion financière et la reddition de comptes. Étant donné l'attention considérable que suscitent les

37. Je pense qu'il y a de bonnes raisons de s'inquiéter. Mon personnel continue de trouver de graves problèmes

changements de programmes et les réductions de dépenses, ces composantes risquent d'être gérées de façon inadéquate et les améliorations nécessaires risquent d'être reportées.

33. Je tiens à insister sur ce point parce que je pense qu'il est essentiel que les changements au gouvernement portent fruit. J'ai consacré une bonne partie de ce chapitre à certains des secteurs les plus importants où, d'après nos vérifications, il faut prendre des mesures — des mesures qui contribueront à l'atteinte de l'objectif tout à fait valable qu'est le renouvellement du gouvernement.

### Gestion et contrôle financiers : sont-ils à la hauteur?

34. Voilà près de 20 ans que l'ancien vérificateur général, J.J. Macdonell, a déclaré que le Parlement et, en réalité le gouvernement, ne contrôlait plus de façon efficace l'utilisation des deniers publics, ou qu'il semblait près de perdre ce contrôle. La gestion et le contrôle financiers, disait-il, étaient « foncièrement inadéquats ».

35. En 1987, mon prédécesseur, Kenneth Dye, a entrepris une deuxième étude de la gestion et du contrôle financiers; il a trouvé des améliorations importantes, mais constaté également que de graves problèmes persistaient.

36. Les questions que nous soulevons sont toutes aussi importantes. Les contrôles financiers sont-ils adéquats? Les gestionnaires comprennent-ils bien ce que coûtent les services gouvernementaux? Les ministres et les sous-ministres disposent-ils de l'information financière, des conseils et de l'appui dont ils ont besoin?

37. Je pense qu'il y a de bonnes raisons de s'inquiéter. Mon personnel continue de trouver de graves problèmes

Faut énormément de discipline pour garder le cap. Pendant les années à venir, nous serons à la merci de choses que nous ne pouvons guère prédire ou contrôler. Nous savons maintenant que les récessions et d'autres événements imprévus peuvent rapidement inverser les gains précédents. En plus, comme nous avons emprunté largement à l'étranger, nous devons continuer à convaincre les autres que nous sommes en train de remettre nos affaires en ordre, si nous voulons continuer à emprunter à des taux d'intérêt raisonnables.

**22.** Si les taux d'intérêt réels tombaient et si l'économie retrouvait les niveaux de croissance de la fin des années 50 et 60 et du début des années 70, la bataille serait beaucoup plus facile. Tant mieux si cela se produit, mais il pourrait être imprudent de fonder nos actions sur de telles possibilités.

## Il est essentiel d'avoir de l'information de qualité et un bon débat

**23.** Je persiste à croire qu'avec de l'information de qualité et un débat rigoureux, nous, au Canada, pouvons choisir le meilleur plan d'action et avoir assez de discipline pour maintenir le cap. La qualité de l'information s'est considérablement améliorée ces dernières années, et je suis heureux qu'un bon nombre de nos propositions aient été mises en oeuvre. Mais la partie n'est pas encore gagnée. Comme nous l'avons dit dans notre rapport d'octobre, il faut une information de meilleure qualité sur la manière dont les prévisions du déficit à court terme s'inscrivent dans un plan à long terme de stabilisation du fardeau de la dette. En outre, nous devons comprendre l'importance de l'endettement du fédéral et des provinces et ses répercussions.

**25.** Un bon débat est essentiel. Il semble que les Canadiens reconnaissent généralement la nécessité de régler le problème de la dette, un accord obtenu en partie grâce à l'amélioration de l'information. Toutefois, les Canadiens sont franchement partagés sur la meilleure manière de le faire. À quelle vitesse doit-on s'attaquer au déficit? Quel équilibre doit-on réaliser entre la réduction des dépenses et l'augmentation des impôts? Quels sont les risques et les incertitudes liés aux différents plans d'action?

**26.** Et peut-être, ce qui est le plus important, nous devons débattre de la question, à savoir la dette que nous pouvons assumer par rapport à notre revenu. Sans cela, le gouvernement risque de se concentrer essentiellement sur les objectifs de réduction du déficit, sans tenir suffisamment compte de l'objectif plus important d'arriver à un fardeau de la dette que l'on peut supporter.

**27.** Les consultations budgétaires amorcées l'automne dernier par le ministre des Finances ont aidé à susciter un débat salubre sur les déficits et la dette. Maintenant, le défi est de poursuivre sur cette lancée et d'en faire un des éléments du processus budgétaire. Ainsi, au printemps, lorsque les gouvernements présentent les budgets dont ils doivent rendre compte, les Canadiens peuvent sentir à bon droit qu'ils ont eu voix au chapitre.

**28.** Dans son budget de février 1995, le gouvernement a annoncé une série de réductions et de changements de programmes qui sont, de l'avis du ministre des Finances, « l'ensemble de mesures le

## Mesures à prendre pour que les changements au gouvernement portent fruit

Le gouvernement risque de se concentrer essentiellement sur les objectifs de réduction du déficit, sans tenir suffisamment compte de l'objectif plus important d'arriver à un fardeau de la dette que l'on peut supporter.

**Le Canada, qui était l'un des pays de l'OCDE dont la dette du secteur public était la moins élevée, est devenu l'un de ceux dont la dette est la plus élevée.**

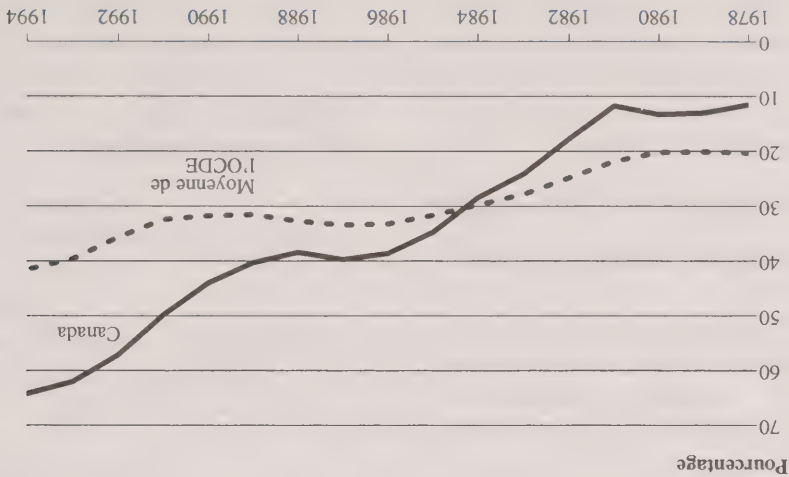
**Jamais auparavant nous n'avons eu à produire, année après année, tant d'« excédents de fonctionnement ».**

**Pièce 1**

(Passif financier net de tous les paliers de gouvernement en pourcentage du PIB)

*L'information est fondée sur les données des comptes nationaux, qui excluent le passif au titre des pensions des employés du secteur public et d'autres passifs.*

Source : Perspectives économiques de l'OCDE, n° 57, juin 1995



19. Au cours des 20 dernières années, la dette s'est presque multipliée par 20, passant de 27 milliards de dollars à 546 milliards de dollars à la fin de l'exercice 1994-1995. Plus important encore, le fardeau de cette dette — le montant de la dette que nous devons par rapport à la taille de notre économie — a presque quadruplé, passant de 19 p. 100 en 1975 à 73 p. 100 en 1995. Pendant cette période, d'autres gouvernements au Canada ont également augmenté leur endettement. Les données de l'Organisation de coopération et de développement économiques (OCDE) (voir la pièce 1) indiquent qu'au cours des 20 dernières années, le Canada, qui était l'un des pays de l'OCDE dont la dette du secteur public était la moins élevée, est

18. On a parlé si souvent de la taille de notre déficit et de notre dette que les chiffres ne semblent plus vouloir rien dire. Il faudrait les étudier sous un angle nouveau.

#### La route difficile qui nous attend

20. L'un des messages les plus importants de notre chapitre d'octobre avait trait à la longue route qui nous attend. L'arithmétique du financement de la dette contient une sombre vérité. Tant que les taux d'intérêt seront supérieurs aux taux de croissance, nous devons, pendant de nombreuses années à venir, payer plus de taxes que nous ne recevons de services — probablement des dizaines de milliards de dollars de plus — simplement pour stabiliser le fardeau de la dette et compenser les nombreuses années pendant lesquelles nous avons reçu plus de services que nous n'avons payés. Jamais auparavant nous n'avons eu à produire, année après année, tant d'« excédents de fonctionnement » simplement pour stabiliser — ne parlons pas de le réduire — le fardeau de la dette.

21. La route qui s'annonce ne sera pas sans difficulté. Comme le sait toute personne disposant d'un budget serré, il



## Introduction

9. Ce rapport annuel, qui est mon cinquième, marque le milieu de mon mandat de vérificateur général. Dans le présent chapitre, je discute à la fois de questions nouvelles et de questions qui me préoccupent depuis que j'ai été nommé vérificateur général — questions que je considère être d'une importance particulière.

10. Dans l'histoire de mon Bureau, l'année qui vient de s'écouler a été une année pleine d'événements. Les modifications apportées l'année dernière à la Loi sur le vérificateur général ne nous limitent plus à un rapport par an. En mai, nous avons inauguré une ère nouvelle avec le premier « rapport supplémentaire ». D'autres modifications à la Loi sont encore devant la Chambre; elles proposent cette fois la création d'un poste de commissaire à l'environnement et au développement durable au sein de mon Bureau.

11. Cette année nous amène également au milieu des années 90 — un point où nous pouvons commencer à voir de quelle façon cette décennie restera dans les mémoires. Lorsque nous repenserons à cette décennie, je pense que nous pourrions la qualifier à l'aide de l'un ou l'autre des deux mots suivants.

12. Le premier de ces mots est « l'incertitude ». Le second est « transformation »; j'en parlerai à la fin du chapitre.

Sommes-nous dans la décennie de l'incertitude?

13. L'incertitude semble être assez présente dans l'esprit des Canadiens. Demandez aux Canadiens — particulièrement les jeunes — quelles sont leurs perspectives d'avenir et ils vous

parleront de leurs espoirs, mais aussi de leurs préoccupations — préoccupations sur l'économie en évolution, le déficit, l'environnement, les questions constitutionnelles, et ce que tout cela signifie pour l'avenir.

14. Bon nombre de ces préoccupations ne sont pas nouvelles. Alors pourquoi est-ce que tout semble plus incertain encore? Peut-être parce que nous sentons que le rythme du changement s'accélère. Nombre d'entre nous pensons que le saut dans l'« ère de l'information » nous fait témoin de changements d'une ampleur jamais vue depuis la révolution industrielle.

15. Nul doute qu'une partie de cette incertitude vient de l'évolution du rôle du gouvernement. Il y a des années que nous nous fions au gouvernement pour fournir un élément de stabilité dans un monde en évolution. Maintenant, le gouvernement lui aussi change — aux paliers fédéral, provincial et municipal — ce qui soulève des craintes au sujet des réductions et de la perte de services gouvernementaux clés.

16. J'ai choisi de souligner deux thèmes principaux dans ce chapitre et chacun a trait à l'évolution du gouvernement. Le premier porte sur la situation financière du gouvernement, dont découle une bonne partie des changements qu'il connaît. Le second traite d'un ensemble de mesures à prendre pour améliorer la gestion du gouvernement si l'on veut que les changements soient menés à bien.

## Les déficits et la dette : les défis qui nous attendent

17. L'une des mes principales préoccupations en tant que vérificateur général vise l'utilité de l'information sur les déficits et la dette du gouvernement fédéral. Cette année, le chapitre 9,

Une partie de l'incertitude vient de l'évolution du rôle du gouvernement.







## Points saillants

1. Cette année nous place au milieu des années 90 et moi, au milieu de mon mandat de vérificateur général du Canada. Dans le présent chapitre, j'aborde les questions qui, à mon avis, revêtent une importance particulière.
2. **Les défis que représentent les déficits et la dette.** Pour gérer le fardeau de la dette du gouvernement fédéral, il faudra une action soutenue pendant bien des années à venir. Pour choisir le meilleur plan d'action, il faudra une bonne information et un bon débat; les choses se sont améliorées, mais il reste encore beaucoup à faire.
3. **Des mesures doivent être prises pour aider à mener à bien les changements au gouvernement.** Les activités et les services gouvernementaux subissent des changements en profondeur, en partie à cause de la situation financière du gouvernement. Pour que ces changements donnent de bons résultats, il faut s'attaquer à un certain nombre de problèmes qui se posent dans des secteurs clés, comme la gestion et le contrôle financiers, les technologies de l'information, la décentralisation administrative, les normes d'éthique, l'intendance des sociétés d'État et la reddition de comptes à l'égard des programmes conjoints. En plus de discuter des mesures nécessaires dans chacun de ces secteurs, je note des questions que j'ai déjà soulevées et qui ne sont pas réglées.
4. Les programmes de développement économique régional illustrent bien pourquoi le gouvernement doit comprendre et démontrer les résultats des programmes. L'absence d'information fiable sur les résultats limite la capacité des Canadiens à évaluer le bien-fondé de ces programmes.
5. Dans le présent chapitre, je souligne également les possibilités de trouver de l'argent en réduisant les coûts et en renforçant le régime fiscal.
6. Je discute de nos travaux de vérification environnementale et des modifications proposées à la *Loi sur le vérificateur général*. Ces modifications prévoient la création d'un poste de commissaire à l'environnement et au développement durable au sein de mon Bureau.
7. Les Canadiens s'attendent que le gouvernement règle les problèmes rapidement. Nos constatations sur la gestion des déchets montrent les risques qu'entraîne le report des mesures nécessaires.
8. Je conclus le chapitre en donnant mon point de vue sur les défis que ces changements comportent pour chacun d'entre nous — les vérificateurs législatifs, les gestionnaires de la fonction publique, les fonctionnaires, les politiciens et le public canadien.

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**Questions d'une importance  
particulière – 1995**





À l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon rapport annuel de 1995 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(3) de la Loi sur le vérificateur général.

Le vérificateur général du Canada,

A handwritten signature in dark ink, appearing to read "L. Denis Desautels".

L. Denis Desautels, FCA

OTTAWA, le 21 novembre 1995



Le Rapport de novembre 1995 comporte 12 chapitres, dont le chapitre « Questions d'une importance particulière », ainsi qu'un Avant-propos et les Points saillants des chapitres des rapports de mai, d'octobre et de novembre 1995. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

*Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.*

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**Report of the  
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**Chapter 17**  
Overview of Regional Economic Development Programs

**Chapter 18**  
Atlantic Canada Opportunities Agency

**Chapter 19**  
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**Chapter 20**  
Western Economic Diversification Canada

**Chapter 21**  
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**November 1995**

*This November 1995 Report comprises 12 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, October and November 1995 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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## **Chapter 17**

### **Overview of Regional Economic Development Programs**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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# Overview of Regional Economic Development Programs

*Assistant Auditor General: Michael J. McLaughlin*  
*Responsible Auditor: Roger Simpson*

## Main Points

**17.1** The history of federal initiatives in Canada's regional economic development goes back over thirty years.

**17.2** This overview chapter highlights some general themes from our audits of federal regional economic development programs in four entities. The mandates of the entities are different but all have delivered financial assistance programs to industry. Because the individual chapters (18 to 21) contain more complete descriptions of the entities' respective operating environments and the detailed observations on their programs, readers should review those chapters in order to place this overview chapter in context.

**17.3** Economic disparity among regions is usually defined in terms of differences in personal income, labour force participation and unemployment rates. Differences in per capita income between richer and poorer provinces have narrowed, but still remain.

**17.4** The four entities operate in differing environments and with their own mandates. While it is not easy to consolidate our audit observations on all of them, the entities have some similar operational characteristics. We have some concerns, as explained specifically and in greater detail in the individual chapters. These concerns include:

- a lack of information on which programs have worked and which have not;
- the need for cost-effective, risk-based project assessment;
- lengthy approval times;
- the need for continued co-operation among the entities; and
- the challenge of implementing changes in repayment policies while ensuring a balance between program objectives and collection.

**17.5** In a period of frequent change, the importance of effective program evaluation to assist decision making increases. The present entities are changing their programs in response to various emerging influences, including fiscal restraint. We found the evaluations performed by the entities had significant limitations and in many important areas no evaluations were performed.



## Introduction

**17.6** In chapters 18 through 21, we report on our audits of federal government entities that deal with Canada's regional economic development. Three of them have been set up since 1987: the Atlantic Canada Opportunities Agency (ACOA), the Federal Office of Regional Development – Quebec (FORD-Q), and Western Economic Diversification Canada (WD). We also examined the Federal Economic Development Initiative in Northern Ontario (FedNor) and the Canada-Quebec Subsidiary Agreements on Industrial Development, both of which are programs within Industry Canada. For the purpose of this report, we use the term "entities" to describe the Agency, the two departments and the two Industry Canada programs.

**17.7** The scope of the individual audits is described in chapters 18 to 21. In this chapter we discuss issues related to common themes among them: measuring and reporting results, project assessment and monitoring, approval times, opportunities for co-operation and the application of repayable contributions. The individual chapters contain more complete descriptions of the respective mandates and operating environments; readers should review those chapters to better understand the programs delivered by these entities and to note our specific recommendations.

**17.8** The entities are based in the regions where they deliver their geographically specific programs. They represent regional interests in national issues, and represent the federal government when its decisions affect their regions in particular.

**17.9** The purpose of this chapter is to provide:

- a brief overview of some of the differences that contribute to regional economic disparity;
- trends in major economic indicators over the past 30 years;
- information on entities' operations where we have concerns as described in the individual chapters; and
- important considerations to ensure the future effectiveness of this type of program.

## The Issue of Regional Economic Disparity

**17.10** The pattern of Canada's settlement has been influenced by geography, climate and the presence of natural resources. Early European colonists came to fish the oceans, trap animals for furs, farm the land and log the forests. Industrialization influenced further development, and different types of communities grew along routes of easy transportation of raw materials and finished goods. Today's population of some 29 million is distributed unevenly across the country, mostly in a narrow band along Canada's southern border.

**17.11** The country is different economically from region to region, and there are wide disparities within regions. Despite major population growth and technological change, the regions are still variously dependent upon such sectors as fishing, agriculture, logging, mining, oil and gas, and industry.

**17.12** Regional economies grow and decline, products move in and out of fashion and some resources are depleted. In recent years, Canada's competitive position in the world has been influenced by the growth of information industries, emerging third-world countries, the end of the cold war and globalization of trade. Constantly changing alliances, trading

The scope of the individual audits is described in chapters 18 to 21.

The country is different economically from region to region.

**Regional economic disparity refers to differences in unemployment rates, labour force participation, and personal income levels per capita.**

blocks, and free trade agreements have emerged against a backdrop of rapid change in politics, technology, demographics, opportunities, and worldwide production and distribution costs.

**17.13** Canada's regions have never shared equally in the national population or wealth. There is economic disparity among regions today as there has been throughout our history, demonstrated by differences in unemployment rates, labour force participation and personal incomes. Successive governments have tried to level the playing field by launching programs designed to create opportunities for people in regions with lower economic performance. Having programs dedicated to economic development is intended to encourage solutions that are specifically adapted to the regions they serve. The current programs are designed to strengthen the regional economies, and to thereby reduce the disparity among the regions, build on strengthening the economic potential of the regions, and contribute to an overall strengthening of the national economy.

**17.14** Industrialized countries throughout the world have similar problems and have developed a variety of methods to alleviate disparities. Canada, too, has used a variety of efforts to reduce regional economic differences. We recognize that the federal government is only one player with influence on regional economies, notwithstanding the transfer payments it makes to provinces and individuals.

### **What Is Regional Economic Disparity?**

**17.15** In our view, disparity can be caused by boom and bust cycles in the economy, as well as the factors mentioned

in 17.10 to 17.14. The programs that we audited were put in place in response to the existence and enduring nature of Canada's regional economic disparities. Although we found no universally accepted definition of regional economic disparity, it usually refers to differences in unemployment rates, labour force participation, and personal income levels per capita.

**17.16** Chapters 18 through 21 make reference, as applicable, to the regional economies. For this overview report, we have examined government income and labour force statistics for the past 30 years, and used these data to produce trend lines comparing two groupings of provinces to the Canadian averages.

**17.17** The exhibits that follow provide a summary picture of changes in Canadian regional economic disparities over the past 30 years. Although we believe the summary analyses serve as a useful backdrop to a view of regional economic development programs, it is important to recognize that changes in key indicators do not necessarily show success or failure of the programs. Other change in, for example, trade, population movements, resource discoveries and depletions have a much greater influence.

**17.18** The summary analyses compare three provinces (Ontario, Alberta and British Columbia) where economic conditions are generally better than the national average with provinces where economic conditions are generally worse than the national average. In the exhibits the data are referenced as a percentage difference from the national average (shown as zero).

**17.19** Exhibit 17.1 shows that the differences in personal income per capita between the above-average and below-average provinces has narrowed slowly but steadily during the past



30 years, although the difference between the two groups is still significant. In 1993, per capita personal income in the above-average provinces was \$23,463 or 17 percent higher than in the below-average provinces (\$20,064).

Personal income includes government transfer payments such as unemployment insurance benefits, old age security, and family and youth allowances. It also includes earned income and, as a smaller component, interest and dividend income.

**17.20** Per capita personal income in the below-average provinces includes a larger proportion of government transfer payments than in the above-average group. The gap in government transfer payments per capita between the two groups of provinces widened in the late 1970s and early 1980s. Although it has narrowed slightly since then, in 1993 transfer payments still made up 21.2 percent of per capita personal income in the below-average group of provinces, compared with 15.7 percent in the above-average group.

**17.21** By contrast, the difference in earned income per capita narrowed slightly until 1980, and since then has remained stable. In 1961, the per capita earned income in the above-average provinces (\$1,634) was almost 41 percent higher than in the below-average provinces (\$1,160). By 1980, the gap had narrowed to approximately 26 percent and was still about the same in 1993.

**17.22** While differences in per capita personal income have narrowed over the 30 years (largely as a result of transfer payments), differences in labour market opportunities show no consistent trend. As Exhibit 17.2 demonstrates, the span between the unemployment rates in the above-average and below-average provinces has varied from year to year but has remained significant. Data for 1993 show that the unemployment rate in the below-average provinces was 23 percent higher than in the above-average provinces.

**17.23** In addition, labour force participation rates during the past 30 years

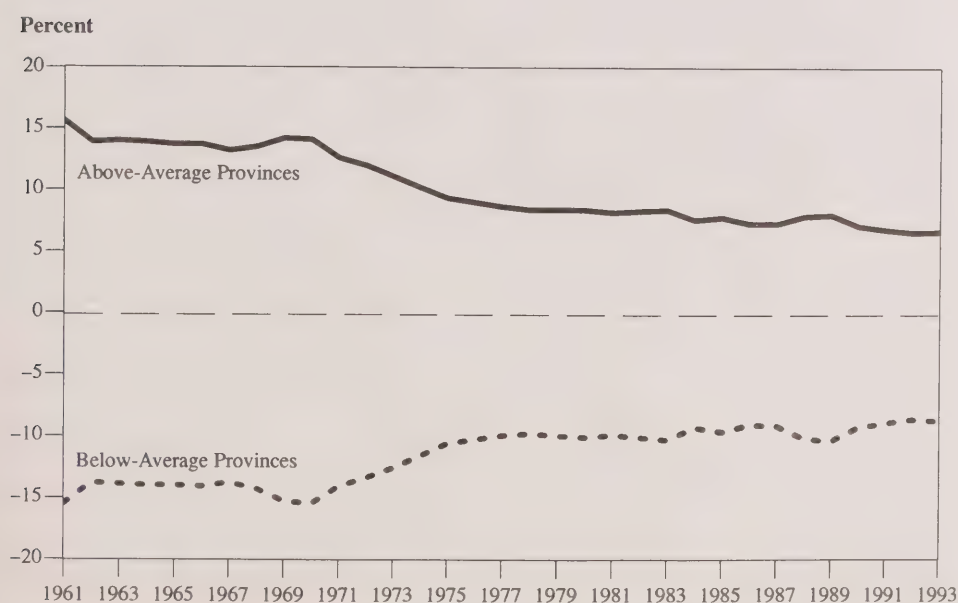


Exhibit 17.1

Personal Income per capita as a Percentage Difference from the National Average 1961-1993

Source: Statistics Canada

The regional economic development entities have expended \$4 billion over the past eight years.

have remained some six to seven percentage points lower in the below-average provinces than in the above-average group. Thus, in 1993 the labour force participation rate in the below-average provinces was 52.9 percent, compared with 58.8 percent in the above-average provinces (11 percent higher). This means that in the below-average provinces, a smaller proportion of the population aged 15 years and over was either working, or looking for work.

#### Regional economic development programs in relation to federal transfer payments as a whole

**17.24** In 1993–94, Canada made transfer payments of \$83.4 billion to individuals, provinces, territories, aboriginal governments and businesses. Although these other federal transfer payments can be expected to have significant economic impacts (including diverse regional impacts), they were outside the scope of our audits.

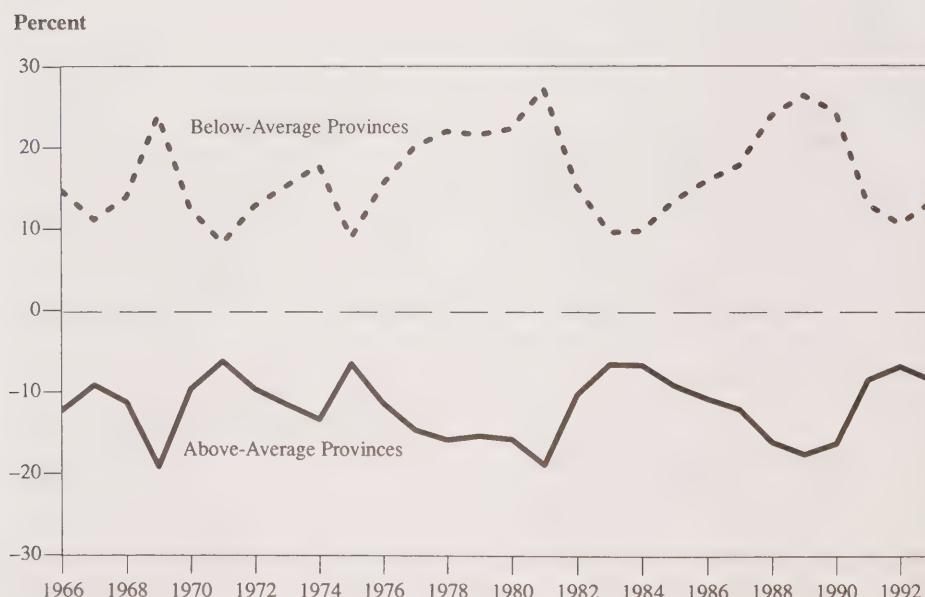
**17.25** Although small in relation to total federal transfers, the amount Canada spends directly on regional economic development programming is nonetheless significant in itself. The regional economic development entities have expended \$4 billion over the past eight years. Direct economic intervention of the kind used by these programs is an active approach toward dealing with disparities; it gives recipients an opportunity to react to opportunities and provide direct employment for Canadians. Accordingly, the expenditures on regional economic development programs, and the results of those programs, attract a lot of public attention and comment.

#### Federal Approach to Dealing with Regional Economic Disparity

**17.26** Historically, Canada has used various approaches to encouraging regional economic development, in response to changing times and political differences. Over the past thirty or more years, there have been many changes in programming direction and format, sometimes within a department and, at

Exhibit 17.2

Unemployment Rate as a Percentage Difference from the National Average 1966 – 1993



other times, with the creation of new entities. The pattern of, and reasons for, the changes have reflected shifts in the economic environment and emerging new ideas for addressing disparities. Frequent changes to program design make it more difficult to hold program managers accountable for overall outcomes and

longer-term benefits. These frequent changes have had a significant impact on the government's ability to measure and assess the results of the various programs. Exhibit 17.3 shows an abbreviated history of the changes up to the establishment of each entity. The changes since then are reflected in chapters 18 to 21.

Exhibit 17.3

Abbreviated History of Regional Economic Development Programming in Canada

<b>1960</b>	Accelerated depreciation allowances for designated regions.
<b>1963</b>	Area Development Agency provided capital grants and tax allowances to industries to expand or locate in areas of acute or persistent unemployment.
<b>mid-1960s</b>	Fund for Rural and Economic Development provided industrial and rural development initiatives based on measures of economic disparity.
<b>late 1960s</b>	Creation of region-specific agencies (including Atlantic Development Board), to strengthen the general economic climate through infrastructure development.
<b>1969</b>	Department of Regional Economic Expansion (DREE) created. Objective was to reduce unemployment, underemployment, and low productivity and to increase labour force participation in the regions worst off. The initial focus was on Atlantic Canada and the Gaspé, later expanded to include much of Canada. Began with focus on infrastructure development in 23 areas considered to have potential for economic development. Program was federally funded, but delivered by the provinces.
<b>1974</b>	10-year General Development Agreements (GDA) implemented. Covered wide range of development projects. Included grants and loan guarantees for slow-growth areas.
<b>1982</b>	New strategic approach involving all development departments. New central agency created – Ministry of State for Economic and Regional Development (MSERD), serving a new Cabinet committee. Gave regional development a greater focus in government decision making. DREE merged with components of Industry, Trade and Commerce (industry, small business and tourism) to form the Department of Regional Industrial Expansion (DRIE). Focus shifted away from regional to national concerns because of cyclical swings in the economy. Incentives to private firms for infrastructure, product development, research and marketing. Federal and provincial cost sharing, with federal share higher in less developed areas. GDAs replaced by ERDAs (Economic and Regional Development Agreements) involving other federal departments for delivery. New Industrial and Regional Development program (IRDP) designated all 260 Canadian census districts into four tiers, assisted to varying degrees.
<b>mid-1980s</b>	Recognition that DREE and DRIE had not achieved sufficient success. Unacceptable income and employment disparities continued in some regions. Actual reductions in income disparity, largely attributed to government transfers.
<b>1987</b>	MacDonald Commission (The Royal Commission on Economic Union and Development Prospects for Canada) recommended separate regional entities with their own programs, leading to the creation of ACOA, WD and FORD-Q (which became independent in 1991). FedNor is part of Industry Canada (which replaced DRIE).



**17.27** At present, all areas of Canada except southern Ontario and the two Territories are covered by a federal regional development entity. In addition to these regionally focussed entities, businesses have access to several national programs of Industry Canada, aimed at selected sectors.

**17.28** The objectives of the regional entities and programs have both similarities and differences. For example the Atlantic Canada Opportunities Agency helps to establish, modernize or expand small and medium-sized businesses and, as well, encourages intergovernmental co-operation with the private sector and institutions. FORD-Q emphasizes long-term economic development, sustainable employment and income creation for small and medium-sized businesses in regions of Quebec that have low incomes, slow economic growth or inadequate possibilities for productive employment. The Canada-Quebec Subsidiary Agreements on Industrial Development, managed by Industry Canada, support municipal infrastructure, major industrial projects and related feasibility studies. FedNor focusses on research and development, quality, technology and management development; establishment, expansion and modernization of businesses; and marketing and feasibility studies. Western Economic Diversification has concentrated on diversifying the Western economy by providing mainly repayable contributions to businesses where the individual projects support the aim of diversification. Given the differences in objectives, it is important to read chapters 18 to 21 for a better understanding of each entities particular environment.

**17.29** Individual provinces and some municipalities have their own economic development programs. Some are aimed at

smaller regions within a province. Our audits do not deal with provincial or municipal programs.

**17.30** Following the 1995 Budget, each of the entities has made changes in its programming — significant changes, in some cases.

### **Fiscal restraint and results**

**17.31** Regional economic development and all other federal programs compete for resources within the government's fiscal framework and deficit-reduction targets. During the period 1988 to 1995 these programs have made contributions of almost \$4 billion, and their own operating costs have amounted to almost \$500 million.

**17.32** As these regional development programs have an economic mandate, not explicitly a social one, it is reasonable to expect them to be able to demonstrate that they have contributed to economic development or diversification. Results can include increased payroll or reduced unemployment insurance and welfare payments, increased revenue from corporate and personal income taxes, improved balance of payments, research and development initiatives, strategic alliances, increased regional influence in federal decision making, and other tangible results. Assessing whether these results have been achieved requires appropriate evaluation of the programs.

## **Observations**

**17.33** Chapters 18 through 21 report our findings in the regional economic development entities we audited. All of the current programs have operational similarities, even though their design specifics are different. The following observations relate to these similarities.



## Objectives Need to Be Operationalized

**More focussed objectives with specific goals are needed**

**17.34** Departmental and program objectives are stated in general terms for most of the entities. The challenge for managers is to translate them into clearer and more focussed objectives with specific goals and, where appropriate, to manage anticipated project or program results. For ongoing management, these operational objectives should be matched with performance information that can be collected and analyzed regularly, or periodically as needed.

**17.35** The entities have set objectives for their major financial assistance programs but, in our view, these have not been broken down adequately into operational outputs and outcomes that are suitable for measuring results.

## The Need to Critically Assess Individual Projects Before Approval

**The entities have their own criteria for project assessment and approval**

**17.36** Each of the entities has project assessment criteria against which applications are judged prior to approval or rejection. These may include requirements for applicants to demonstrate that they have met the incrementality criterion (the project would not proceed in the same scope, timing or location without assistance) and have sufficient equity to invest. In addition to demonstrating the need for financing, applicants have to show that government assistance will not give the project an unfair competitive advantage over others in the region or in Canada. They must also demonstrate that,

once launched, commercial projects will likely be self-sustaining and will not need ongoing public support to be viable. The individual entities also have additional criteria specific to their own programs.

**17.37** However, each of the entities' program managers have difficulty meeting some of the criteria. They attempt to assess the need for support during their project review and approval processes. The entities do not have risk-based assessment procedures to provide guidance to staff when they review projects. Such procedures would help staff to understand the degree of financial risk the government wishes to assume, and would give guidance on the types of projects the entity wishes to support (or avoid).

**17.38** Assessing future viability is difficult; each entity has developed its own approach to doing this within the established framework. In practical terms, it is not possible to guarantee that all projects will be viable, and some subsequently fail. The challenge is to set viability-assessment procedures that are reasonable and appropriate in relation to the amount of public funds being spent. Similarly, the entities have to assess whether support for an individual project will have a negative effect on competition. Chapters 18 to 21 detail instances of how successfully they have applied these processes.

**17.39** Another challenge for the program managers is to decide whether projects would go ahead without program funding. This is difficult because a business decision to proceed is based on several factors in addition to financial capacity (such as return on investment). Our chapters indicate that programs have funded projects where the case for incrementality was not made clearly, and the applicants appeared to have the

**The entities do not have risk-based assessment procedures.**

financial resources available to proceed on their own.

### Approval times

**17.40** Internal processes for assessing projects have to strike a balance between serving the public quickly and efficiently on the one hand and ensuring due diligence in control over the use of public money on the other, working within available resources. All of the programs have established guidelines or targets for the length of time their staff should take to analyze and reach a decision on applications, and their systems track the elapsed time between application and approval and payment.

**17.41** Although the targets differ, and some entities meet some of them, generally applications take a long time to reach the approval stage. Processing times can vary according to the complexity of the individual case and the degree of due diligence related to assessing the risk of investing public funds. The entities also need to take into account the administrative costs involved in relation to the dollars spent. The standards that exist range from 30 to 90 days, with actual performance ranging from an average of 40 to 153 days. In our opinion this is a lengthy approval process.

### Measuring and Reporting Results

**17.42** Over the past eight years, the programs that we audited invested some \$4 billion in developing Canada's regional economies. Although there has been considerable scrutiny by the media and the public, and by both the private and the academic sectors, there is no clear consensus on what results the programs have achieved or whether they have achieved what was expected.

**17.43** It has been federal policy since 1977 to evaluate program performance. ACOA has evaluated its main programs recently and deserves credit for its work in this difficult task. Similarly, Industry Canada conducted an evaluation of FedNor in 1992. WD and FORD-Q have evaluated some of their program components. Managers have used other forms of review but they do not provide for measurement and analysis of achievements resulting from the programs.

**17.44** Our three chapters on program evaluation in the 1993 Report highlighted the usefulness, as well as some of the difficulties, associated with program evaluation. Many of the difficulties identified apply to evaluating regional economic development programs. For example, objectives are generally broad, making their achievement difficult to evaluate. In addition, the methodologies are not always precise or agreed upon, and key data are often either missing or inadequate.

**17.45** Limited monitoring of projects after the payment phase is another problem that makes evaluation difficult. The entities have to decide how much they are able to spend on subsequent monitoring, while avoiding excessive costs and using staff efficiently; they must also ensure that the individual projects have achieved their objectives and that the programs are getting information from their clients that is essential to assessing results on a wider basis. In today's climate of resource reductions, the cost of monitoring has to be balanced against the need for, and benefits derived from, having the information.

**17.46** Still, the importance of information about results is never more crucial than when decisions are being made about changes to programs or when new programs are being designed. Many

Generally applications take a long time to reach the approval stage.

changes have been made to programs within departments in response to emerging issues and changing environments (as illustrated in Exhibit 17.3); what is less clear is the extent to which evaluations of previous results have had a significant influence on program change.

**17.47** Taken as a whole, results measurement in the entities has been disappointing. Not all of the program elements have been evaluated and for newer elements it is too soon to tell. Given the government's evaluation policies, program managers have used their discretion (other than ACOA, where legislation dictates the program elements to be evaluated) to decide whether it was worth investing in evaluation of all program elements and, where they have done evaluations, what issues to review. Nevertheless, there is a lack of information on which programs have worked and which have not. Moreover, Parliament has not been provided with appropriate accountability information about the results achieved with the billions of dollars that have been invested.

#### **Selected indicators are not always sufficient**

**17.48** The entities have produced selected indicators to demonstrate their results. However, in many cases these indicators are not sufficient and the data lack rigor.

**17.49** Job creation is one example of an indicator used by a number of the entities. However, the entities often just added up the number of jobs the projects they funded were expected to generate, and concluded that their programs had created those jobs. Although the number of jobs created is a commonly used indicator, generally the claimed results do not reflect actual jobs created (as distinct from those

forecast), nor do they deal with the nature of the jobs generated. The information available usually does not conclude whether a job is temporary, long-term, part-time, low or high-skill, or low paying or high-paying. Focussing on the number of jobs without providing more detail (such as the impact on payroll or unemployment insurance payments) detracts from meaningful analysis of results.

#### **Improvements needed in order to measure results**

**17.50** Our examination of the role and use of results measurement in the regional economic development entities indicates several things.

**17.51** First, there is a need for clear, realistic and measurable objectives. Entity managers are responsible for developing performance expectations, client-oriented service standards and relevant and useful performance indicators. Without a good understanding of what the entities expect their programs to accomplish, it is difficult if not impossible to assess the degree to which the programs have achieved their objectives.

**17.52** Second, reliable project information is key. Entities need to collect and monitor the results achieved at a project level, on an ongoing basis. Reliable information at the project level supports evaluation at all levels. Such data provide ongoing measures of performance and much of the necessary information for planned evaluations. In addition, analysis of these data in relation to costs helps reveal whether or not projects and programs are providing value for the money invested. The entities we audited had information on the planned results of the projects they funded, but they had not followed up on this information consistently to ascertain its reliability.

There is a lack of information on which programs have worked and which have not.

Reliable project information is key.



Program results are more than the sum of project results.

The entities vary considerably in their use of repayables.

**17.53** Third, program results are more than the sum of project results. Other effects, such as the level of incrementality of the program (for example, how much investment would not have gone ahead without the help of the program?), or the level of displacement (the extent to which subsidized firms “crowd out” or displace unsubsidized firms), or multiplier effects (how many indirect jobs or how much income did the program generate in an area because of an investment?) cannot be measured just by looking at project figures. Additional analysis is necessary in order to reach conclusions on those issues. In addition, the net return of a program has to be assessed in terms of the benefits produced and the costs incurred.

**17.54** Finally, as noted one cannot measure completely the success or failure of a regional economic development program by examining movements in economic aggregates at the regional level.

#### **The diversified entities can have a national effect**

**17.55** Some of the issues that the individual entities deal with overlap their respective jurisdictions. One example is displacement at a national level. As we observe in chapters 18 and 20, two of the entities (ACOA and Western Economic Diversification) report that they have attracted large federal contracts to their regions. In our opinion, such occurrences could have positive or negative effects on national economic efficiency. With competition from suppliers in the regions, we would expect to see some attention given to assessing the effects of wider regional procurement on national economic efficiency.

#### **Opportunities for Co-operation**

**17.56** The programs of the four regional entities have significant differences, as do

the regional economies they serve. Comparing results among programs should be done with care. But there are enough similarities to make possible some sharing of information and comparisons of operations. We are encouraged to note that there is a working group of auditors, evaluators and reviewers among the regional development programs and that they have exchanged practices in internal audit, evaluation and performance measurement.

#### **Repayability of Contributions**

##### **Entities applied the repayability policy differently**

**17.57** In February 1990, Treasury Board approved a policy of repayable contributions for business assistance. The objective was to refocus business assistance programs toward investing in economic development, as opposed to subsidizing the private sector. The policy stipulates that all contributions to business be repayable, but there are significant exemptions. Contributions that may be non-repayable include those to not-for-profit entities, those for less than \$100,000, and those for projects that benefit an industrial sector. The entities vary considerably in their use of repayables. However, for all the entities, when assistance is repayable it is interest-free.

**17.58** Western Economic Diversification makes all its assistance to individual businesses repayable. FedNor has made less than 8 percent of its contributions repayable but they represent 34 percent of the total dollars. Seventeen percent of ACOA's Action Program contributions are repayable. About 24 percent of FORD-Q's contributions are repayable, including those from the Canada-Quebec Industrial Subsidiary Agreements which after February 1990



made contributions to major industrial projects repayable, but not those to municipalities. These percentages reflect the policies in place prior to February 1995.

**17.59** Some contributions are repayable once the client has met certain conditions. Some of these conditions are complex and will not be met for many years into the future. Monitoring and collecting the repayments will require significant staff expertise and effort as some programs change direction. The entities will have to make decisions to ensure that receivables are collected in a cost-beneficial way.

**17.60** The February 1995 Budget speech announced changes in the repayment policy. In future, a greater proportion of assistance to individual business will be repayable. The recent operational experience of Western Economic Diversification may be of use to the other entities (See Chapter 20).

## Future Operations of Regional Economic Development Programs

**17.61** Future regional economic development programs in Canada will be different. Announced changes include significant funding cuts in most entities, new program partnerships involving financial institutions, emphasis on greater repayability and a variety of other modifications.

**17.62** Several ongoing concerns need to be addressed. A primary one is to determine what is being accomplished for the expenditures being made. Without objective assessments of program results, as are required for the ACOA programs, the entities cannot answer this fundamental question properly. In our view, in times of serious resource limits,

failure to measure and report results is an unacceptable financial risk to the best use of public funds.

**17.63** But there are other issues that also need to be resolved, such as the extent to which projects should be monitored, the accountability of program managers after the stream of payments has been made, and how the program objectives should translate into efficient and effective operations. Also, the impact of the programs on competitors, the need for funding as defined by the incrementality criterion, the assessment of projected economic benefits and project viability need to be addressed more rigorously. Implementing the new repayability regime in times of reduced resources will pose a challenge for the entities. Opportunities also exist to improve co-ordination with other entities to enhance the efficiency of program delivery.

**17.64** In conclusion, regional economic development is delivered by the federal government through a number of separate entities. They have different priorities and somewhat different objectives. It is essential that each entity evaluate its own impacts so that the government has the information to assess its policies on regional economic development.

## Entities' Responses

### *ACOA's response:*

*The Atlantic Canada Opportunities Agency welcomes the findings and observations of the Auditor General. The Agency also welcomes the AG's recognition of the progress it has made in evaluating its major programs and in co-ordinating the work of federal government, provinces and the private sector; most visibly in the tourism and geomatics industries.*

*The Agency will implement measures in response to each of the Auditor General's*

*recommendations; some measures have already been implemented. The Agency's detailed responses follow each of the AG's recommendations in Chapter 18.*

*The following is a brief overview of the more significant areas where the Agency's work relates to comments made in Chapter 17.*

#### **Evaluation and policy and program changes**

*ACOA has made extensive use of review and evaluation to assess its results and guide significant policy and program changes; this, in order to further the government's objectives for economic development. The Agency conducted extensive and, in some respects, ground-breaking evaluations of its two major programs (Action and COOPERATION) and evaluated the Fisheries Adjustment Program (FAP) and individual COOPERATION Program agreements.*

*These efforts were capped by a comprehensive assessment of the Agency by the government, through the Program Review exercise in the fall of 1994. While Cabinet confirmed ACOA's mandate to co-ordinate economic development in Atlantic Canada and to promote business development and job creation in partnership with the private sector, it also directed that the Agency implement significant changes in its operations. Commercial assistance under the Business Development Program is now fully and unconditionally repayable, and is to be but one of many ways in which the Agency works with business to create jobs and enhance economic development. Repayability and related operating changes will require that ACOA Account Managers maintain contact with business clients, beyond the initial project evaluation phase, to bring valuable advice and support in areas such as marketing, improved management practices, quality assurance and technological innovation, throughout the life cycle of the project and beyond. This comprehensive business*

*support approach will further reduce risk and contribute to the already high rate of success of ACOA-assisted businesses.*

#### **Procurement**

*It is ACOA's view that assisting Atlantic Canadian companies to compete for federal contracts does not diminish national economic efficiency. The Industrial and Regional Benefits (IRB) policy is designed to establish a level playing field: to ensure that firms in all regions have access and opportunity to participate in major government procurements and contracting. Value for money, cost effectiveness and efficiency — in short, competitiveness — are the overriding criteria for the procurement process. The policy predates the creation of the regional agencies.*

*ACOA believes that its role in helping to implement this policy strengthens national economic efficiency while strengthening Atlantic Canada, by enlarging the supplier base and promoting more competition within the process.*

#### **WD's response:**

*The analysis of regional economic development programs provided in this chapter assumes that all regional agencies are mandated to address regional economic disparities. This is not the case for the Department of Western Economic Diversification (WD), which is mandated under the Western Economic Diversification Act to develop and diversify the Western economy. This mandate recognized the heavy dependency of the Western economy on natural resources and, therefore, the vulnerability to "boom and bust" cycles. This is a fundamentally different conception of economic development, and one that was recently cited by the OECD as "... a significant improvement on the centralized system ... flexible, allowing regions to develop policies and programmes which are appropriate and well-tailored to their needs."*

## **Chapter 18**

**Atlantic Canada Opportunities  
Agency**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*



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## Atlantic Canada Opportunities Agency

*Assistant Auditor General: Wm. F. Radburn*  
*Responsible Auditor: John O'Brien*

### Main Points

**18.1** The Atlantic Canada Opportunities Agency (the Agency or ACOA) performed extensive evaluations of its two main programs using relevant indicators and an appropriate methodology. Due largely to errors in the data collected and limitations in the assumptions used, the results reported have significant limitations.

**18.2** Our audit of a sample of Action Program and Fisheries Alternatives Program files found that, while basic eligibility requirements were met, there were weaknesses in assessing key economic development criteria such as incrementality, viability and net economic benefit, and weaknesses in monitoring project progress and results.

**18.3** The agreements governing the COOPERATION Program have broad eligibility criteria and objectives that are not clearly linked to program objectives. Information on project activity and results is not maintained in a consistent manner.

**18.4** The Agency has made progress in co-ordinating economic development initiatives with other levels of government in the Atlantic region.





## Introduction

### The Case for Economic Development in Atlantic Canada

**18.5** By most objective measures, Atlantic Canada is at an economic disadvantage when compared to Canada as a whole. Participation in the labour force is lower than the national average (Exhibit 18.1). Fewer in the labour force have employment compared to the national average (Exhibit 18.2). Those who are employed earn less than the national average (Exhibit 18.3).

**18.6** Atlantic Canada is highly dependent on primary industries such as agriculture, fishing, forestry and mining, and on resource-based, export-oriented manufacturing. These industries are highly cyclical and subject to influences outside of Canada. Studies have indicated that Atlantic Canada's economy is characterized by low productivity, high costs of transportation to markets,

inadequate investment and lack of technological innovation.

### ACOA — A Decentralized Approach

**18.7** The Atlantic Canada Opportunities Agency (the Agency) is the most recent in a series of initiatives designed to reduce the economic disparity between Atlantic Canada and the rest of Canada. The evolution of regional economic development programs in Canada is described in Chapter 17, "Overview of Regional Economic Development Programs".

**18.8** The Agency, with its head office in Moncton, New Brunswick, is one of the few federal departments whose headquarters are outside the National Capital Region. The Agency itself is highly decentralized, with offices headed by vice-presidents located in each Atlantic provincial capital and in Sydney, Nova Scotia. A great deal of decision-making authority is delegated to each vice-president and, in turn, to the officers in each region.

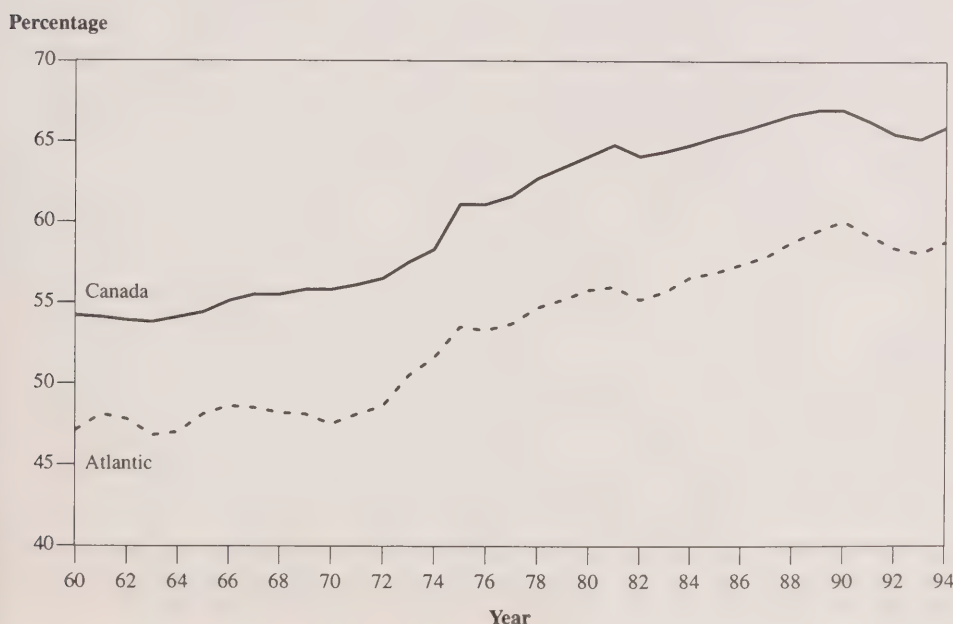


Exhibit 18.1

Comparison of Labour Force Participation Rates for Population Aged 15 years and Over

Source: Statistics Canada

**18.9** The legislation establishing the Agency states that its purpose is to "increase economic opportunity in Atlantic Canada and, more particularly, to enhance the growth of earned incomes and employment opportunities in that region."

**18.10** The Agency has three primary expenditure programs that focus on economic development.

- **Action Program.** The objective of the Action Program is to assist in the establishment of new businesses and the modernization or expansion of existing businesses in Atlantic Canada. Projects supported by financial assistance include studies designed to improve the viability of existing businesses; assistance to develop new products, services or production processes; and financing the establishment, expansion or modernization of a business. Spending on the Action Program from its inception in February 1988 to 31 March 1995 totalled \$1.17 billion.

- **Fisheries Alternatives Program.** This program provides financial assistance to help alleviate hardship caused by reductions in fish quotas and depletion of

fish stocks. From its inception in May 1990 until 31 March 1995, the Agency spent \$91 million on Fisheries Alternatives projects. The program was terminated in the February 1995 Budget.

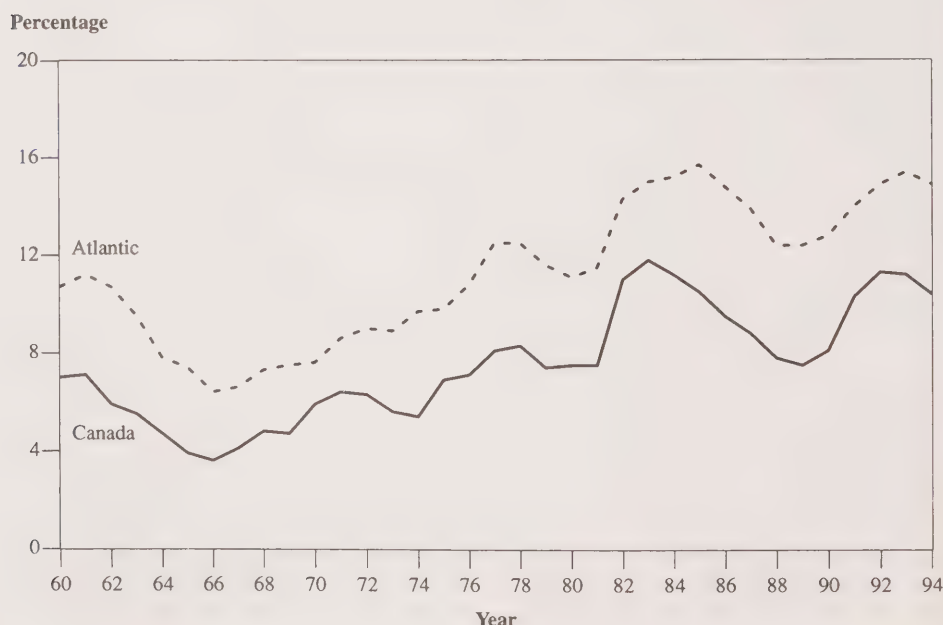
- **COOPERATION Program.** This program is intended to improve the environment for economic growth in Atlantic Canada through co-operation among all levels of government, the private sector and institutions. It is a federal-provincial program governed by agreements between the federal government and the provinces. Individual agreements can be delivered by the Agency, another government department or a province. The Agency's expenditures through the COOPERATION Program totalled \$435 million from 1 April 1987 to 31 March 1995.

**18.11** The Agency's expenditures are about three percent of federal government spending in the Atlantic region.

**18.12** Other Agency activities include advocacy of Atlantic Canada's interests and co-ordination among federal government departments of activities intended to stimulate economic growth.

Exhibit 18.2

Comparison of Unemployment Rates for Labour Force Participants Aged 15 Years and Over



Source: Statistics Canada

## Audit Objectives and Scope

### Objectives

**18.13** Our objectives in conducting this audit were to assess:

- the measurement of the results the Agency has reported to Parliament for its economic development programs;
- the decision-making process used to approve or reject projects, and the Agency's ongoing monitoring of projects;
- certain of the Agency's efforts to co-ordinate its economic development programs internally, with other federal agencies and with other levels of government; and
- the Agency's compliance with its program delivery standards.

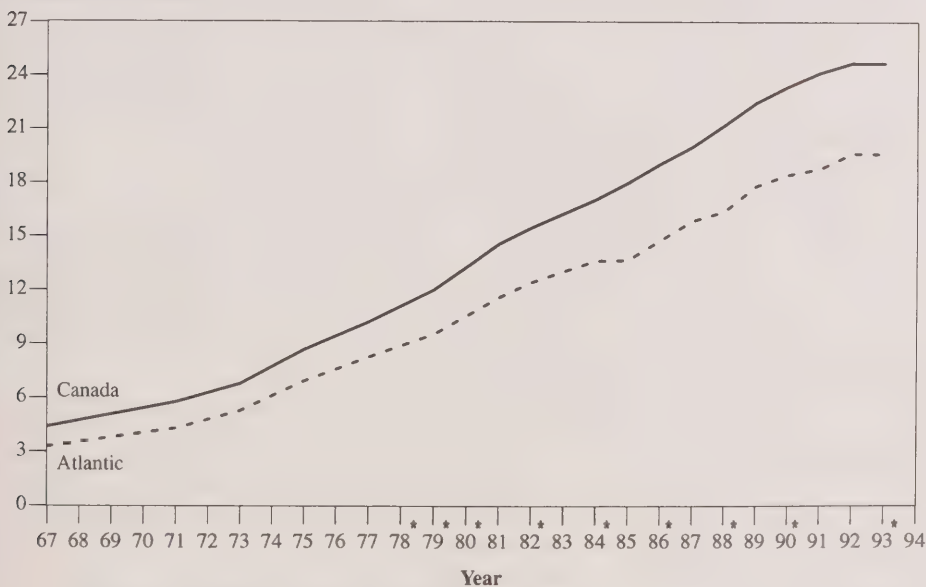
### Scope

**18.14** Our scope involved auditing certain key results that the Agency has

reported to Parliament in its Part III of the 1994–95 Estimates and its 1988–1993 Five-Year Report to Parliament. We also audited a sample of accepted and rejected projects to determine whether the Agency had applied the terms and conditions approved by Treasury Board, to determine whether it had applied key economic development concepts when making decisions, and to assess whether it had exercised appropriate monitoring and control of projects. During our review of these files, we assessed the Agency's compliance with its own standards for service delivery. We also performed case studies on sectors of the Atlantic economy that the Agency supports to assess the extent to which it co-ordinated its efforts internally and externally.

**18.15** The quantitative information in this chapter has been drawn from various government sources indicated in the text. Unless otherwise indicated, however, this quantitative information has been checked for reasonableness but has not been audited.

Thousands of Dollars



\* data not compiled by Statistics Canada for those years; values extrapolated from available data

Exhibit 18.3

Comparison of Earnings  
(Wages, Salaries and/or Net  
Income from Self-Employment)

Source: Statistics Canada

## Observations and Recommendations

### Measuring and Reporting Results

#### Background

**18.16** In its Part III of the 1994–95 Estimates and its 1988–1993 Five-Year Report to Parliament, the Agency reported that its programs and activities had achieved significant results. In reviewing the results reported by the Agency, we sought to answer the following questions:

- Were the measures used to report results relevant to the Agency's legislated and program objectives?
- Was the approach used to measure results appropriate?
- Was the approach applied properly and based on reasonable assumptions?
- Were the input data used to measure results reliable?

- Were the results reported to parliamentarians in clear and understandable terms?

**18.17** The Agency's enabling legislation requires it to evaluate its activities and report on the "impact [its] activities have had on regional disparity". The Agency completed program evaluations of its two major expenditure programs, the Action Program (completed in 1992) and the COOPERATION Program (completed in 1993). These evaluations are the primary sources of publicly reported information on results.

**18.18** Exhibit 18.4 displays the key results that the Agency has reported to Parliament.

**18.19** In addition, the Agency has reported levels of client satisfaction, measures of efficiency and operational activity, and increases in federal procurement in the Atlantic region since its inception.

Exhibit 18.4

#### Key Results Reported to Parliament

Results Reported	Action Program	COOPERATION Program	Combined
Total GDP impact	–	\$1 billion (1997) <sup>(1)(2)</sup>	\$1.4 billion (1992) <sup>(1)(2)</sup> \$2.1 billion (1997) <sup>(1)(2)</sup> Plus multi-year chart <sup>(2)</sup>
Impact on GDP per \$ of ACOA finding	\$4.2 to \$1 <sup>(1)(2)</sup> (1992 and 1993)	–	
Jobs created	26,089 (1993) <sup>(2)</sup> 26,000 (1993) <sup>(1)</sup> 33,000 (1997) <sup>(2)</sup>	31,000 (1997) <sup>(1)(2)</sup>	42,000 (1992) <sup>(1)(2)</sup> 64,000 (1998) <sup>(1)(2)</sup> Plus multi-year chart on effect on employment <sup>(2)</sup>
Jobs maintained	31,284 (1993) <sup>(2)</sup> 33,000 (1993) <sup>(1)</sup>	–	
Impact on tax revenue	–	–	\$240 million (1992) <sup>(1)(2)</sup> \$600 million (1999) <sup>(1)(2)</sup> Plus multi-year chart <sup>(2)</sup>

GDP – Gross Domestic Product

Sources: (1) Part III of the 1994–1995 Estimates  
(2) 1988–1993 Five-Year Report to Parliament  
( ) indicates year reported



## Commendable initiatives to measure and report results

**18.20** Evaluating the results of economic development programs is difficult and expensive, especially for a new organization. Nonetheless, the questioning of program relevance and cost effectiveness is vital for good management and accountability.

**18.21** Although the evaluation of economic development programs is not new, the Agency is the only federal organization required by law to evaluate its programs' impact on regional disparity. It is important to emphasize that in addressing this difficult task, the Agency has gone beyond most current practice for measuring and reporting results of economic development programs. The remainder of this section will comment on the strengths and weaknesses in the measurement and reporting of results.

## Results measured are relevant to key stewardship issues

**18.22** Results selected for measurement and reporting must be relevant to the organization's key objectives. The key results selected — namely, jobs created and maintained, total effect on employment and total impact on gross domestic product — are relevant and linked closely to the Agency's legislated objectives. The number of jobs created and maintained is a common measure for economic development programs. However, in measuring the total effect on employment and the total impact on gross domestic product (both of which are measures of macro economic impact not typically subject to program evaluation by federal economic development agencies), the Agency has advanced the state of the practice.

**18.23** In addition to the macro economic indicators, there are other

intermediary indicators directly related to program objectives that could be measured. Measurement of these intermediate indicators could provide a link between the Agency's programs and the reported macro economic results. While the Agency established program objectives for both the Action and COOPERATION programs, they were not stated in a manner that was clear and measurable. In addition, achievement of the objectives was either not measured or only partially or indirectly measured in the evaluations. Exhibit 18.5 shows the objectives by program and whether results were measured for each objective.

## **18.24 The Agency should improve the clarity and measurability of objectives for its key programs and measure their achievement in its program evaluations.**

*Agency's response:* ACOA appreciates the positive comments of the Report concerning the progress made by the Agency in what the OAG acknowledges to be the difficult task of evaluating the impact of regional development.

*From its inception the Agency recognized that there are few measurement models available that meet regional development evaluation needs. Accordingly, the Agency used a multi-disciplinary team approach, including contracts with independent, national consulting firms, to evaluate both major ACOA programs and to provide recommendations regarding appropriate models and assumptions to be used. As a result, the Agency has focussed its efforts and resources on measuring the most important results of its programming, the ultimate impacts on the Atlantic economy and regional disparity. The Agency has measured job creation, the top priority of the government, and produced a value-for-money evaluation of its programming, which is rarely available for economic development programs. Based upon the lessons learned from this effort, the Agency is taking steps to*

The key results selected for measurement are relevant and linked closely to the Agency's legislated objectives.

Objectives were not measured or only partially or indirectly measured in the evaluations.

*establish a few key measurable objectives in addition to jobs, such as productivity, sales and export sales, which support the ultimate objectives of job creation and increased income. The Agency plans to continue its practice of follow-up surveys of representative samples of assisted projects as a means of evaluating the achievement of objectives. This approach produces sound results while being most cost effective.*

**The need to gather and maintain information on an ongoing basis**

**18.25** For most new programs, the Treasury Board recommends that an evaluation framework be developed as early as possible in a program's design or implementation. An evaluation framework provides the basis for future evaluation. Among other things, it identifies the evaluation issues and indicators. It also sets out the data requirements for evaluation — including identification of the data that need to be collected on an ongoing basis.

**18.26** The Agency developed evaluation frameworks for the Action Program (July 1990) and the

COOPERATION Program (November 1990). Both evaluation frameworks indicated that there was a need to develop a set of clearly defined and measurable objectives and to collect and manage all relevant baseline data. The Agency did not collect all the baseline data necessary for evaluation as identified in the evaluation frameworks. Clear, measurable objectives are important to the ongoing management of the programs and are needed to determine what information should be gathered to assess the achievement of results.

**18.27** Where the Agency was directly responsible for the delivery of the Action Program, it had some program information available when completing the evaluation. For each project, it had gathered basic information about recipients, along with such information as job creation and maintenance expected at the time of application, funds approved and spent, and cash-flow projections. While this information was useful, the Agency did not, as a matter of course, maintain information on actual project results in its database.

**Exhibit 18.5**

**Objectives for the Action and COOPERATION Programs**

Objective	Action	COOPERATION	Results Measured by ACOA
Development of entrepreneurship	X	X	Partially
Small, medium-sized enterprise success/competitiveness	X	X	No
Lasting employment opportunities	—	X	No
Increased earned incomes	—	X	Indirectly
Advocacy of Atlantic interests	—	X	No
Expanded competitive economy	—	X	Partially
Increased innovation	X	—	Partially
Product and market development	X	—	Indirectly

Source: Action Program Evaluation Assessment/COOPERATION Program Evaluation Framework

**18.28** Most of the individual agreements under the COOPERATION Program were delivered by provincial governments or other federal agencies. Although for each COOPERATION agreement there was an evaluation framework setting out the information requirements, these concentrated on operational or service issues rather than on results information linked to the objectives of the agreement. Information on projects was kept by the delivering organizations. As a result, the fundamental information on program activities necessary for accountability and evaluation (for example, a complete list of recipients) was not readily available. Even basic information was often very difficult to obtain, as the delivering organizations took numerous and varied approaches to collecting it.

**18.29** The 1990 framework for the evaluation of the COOPERATION Program identified the need to gather appropriate data, and recommended that ACOA immediately proceed with the steps necessary to collect and manage all relevant baseline data.

**18.30** Furthermore, the 1993 evaluation report itself stated the following:

Strong and credible material, records and information for program evaluation purposes were not readily available. This suggests that ACOA is at risk in demonstrating an important condition of accountability.

**18.31** In our view, this problem restricted the Agency's ability to conduct a cost-effective evaluation of the COOPERATION Program.

**18.32** For future COOPERATION agreements, the Agency should ensure that information on recipients, activities

and results is maintained in a consistent form and is readily accessible.

*Agency's response: Since its inception, the Agency, in regard to programs it delivers in co-operation with the provinces, has recognized the complexity of performing program evaluations, given the differing practices and requirements of program evaluation among the provinces and their varying capabilities to deliver such products.*

*For this reason, ACOA initiated the evaluation of the COOPERATION Program, following which the Agency implemented steps to ensure the ready availability of data on COOPERATION program recipients and activities. These steps are continuing and include investments in computerized systems so that project-level data maintained by provincial governments, for example, can be transferred to ACOA's database and be readily accessible to ACOA officials. It is planned that data on results will be obtained through follow-up surveys of representative samples of recipients.*

#### Measuring results — Action Program

##### **18.33** The evaluation process.

Information was gathered for the Action Program evaluation through a survey of clients, interviews, case studies and internal program sources. The macro economic impacts were established through a technique known as econometric modelling. The Agency selected the number of jobs created as the measure of the program's direct impact. This was then translated into a measure of economic activity ("value added"), by sector. Value added, by sector, was the basic input into the econometric model that estimated the effect on gross domestic product and other macro economic impacts of the Action Program. In our view, this approach to measuring the key results of the Action Program was valid

Basic information on COOPERATION Program projects was often very difficult to obtain.



and appropriate. The evaluation process followed is outlined in Exhibit 18.6.

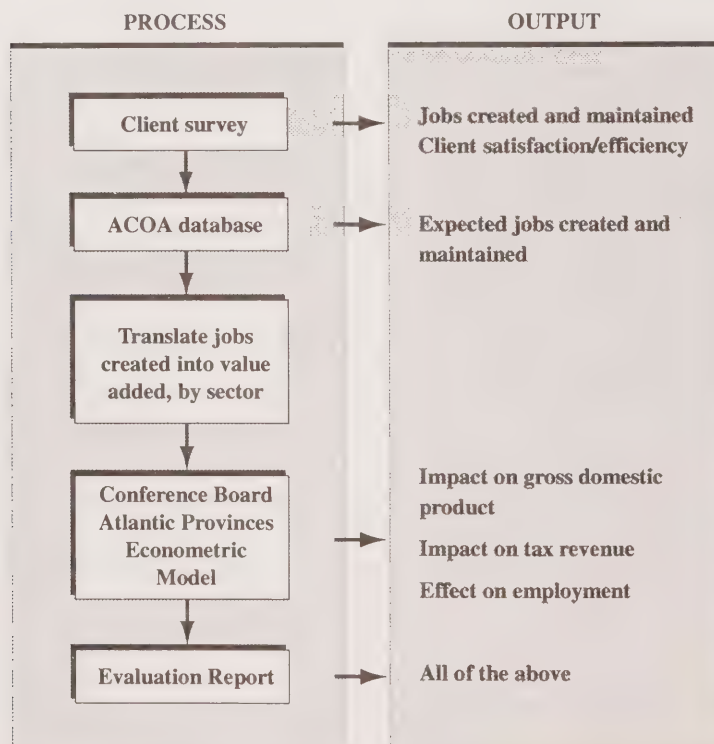
**18.34** We performed a limited survey of the state of evaluation of similar economic development programs in other countries. The type of evaluation conducted for the Action Program is similar to evaluations carried out in Western European countries, although those evaluations do not always measure the macro economic impacts of economic development programs.

**18.35 Problems with input data and modelling assumptions.** The results reported by an econometric modelling exercise are dependent on the model selected, the modelling assumptions applied and the data input. While the model the Agency used was appropriate, our analysis of the quantification of the direct impact selected by the Agency (jobs created), used as the basic input data, revealed problems.

**18.36** To assist in determining the program's direct impact, the Agency conducted a survey of its clients asking them for estimates of the number of jobs created and maintained by the projects selected for the survey that could be attributed to Action Program assistance. The Agency received survey responses from 607 clients who had received assistance during the period February 1988 to March 1992. The survey produced an estimate of the number of jobs created that ranged from a low of 18,346 to a high of 23,181, with the midpoint at 20,763. The Agency has informed us that one of the main objectives of the survey was to establish a success rate for the achievement of actual job creation and maintenance. The job creation success rate was to be used to adjust the Agency's database of expected job creation, for modelling purposes.

Exhibit 18.6

Action Program Evaluation Process





**18.37** We reviewed a sample of 51 of the 607 projects of clients who responded to the survey. Our review was designed to determine the reliability of job creation and maintenance information from the survey when compared with information from the Agency's own files, including information obtained through site visits by Agency officials and self-reporting by clients. For the projects we reviewed, the number of jobs created according to the survey was higher than our estimate based on the documentation in the Agency's files. Where differences existed, we found that the survey information was consistently higher than information in the Agency's files. Our findings, while based on a significant portion of the reported jobs created, cannot be used in place of the survey as an estimate of the jobs created by the Agency's clients.

**18.38** We found several important reasons for the differences between the information included in the survey and information contained in the Agency's files:

- In some cases, the survey estimate included all jobs created by all Agency-supported projects of a client and not just the direct jobs created by the project that was the subject of the survey. For example, one company in the survey reported the creation of 42 jobs by a project that had received approval for \$155,000 in Agency assistance and was designed to create one job. This same company had two other major projects, including the establishment of the company, with approved Agency assistance of \$1.3 million.
- Marketing and innovation projects were designed to create few direct jobs, yet the survey respondents reported significant job creation. For example, a company reported the creation of 40 full-time and 15 part-time jobs from assistance of \$100,000 for various

marketing activities. This company had received significant previous assistance from the Agency and other government agencies that had had an impact on the number of persons it employed. The number of jobs reported by the company as attributable to the marketing activities appears to represent all of the company's employees.

**18.39** We have further concerns about the conduct of the survey of clients:

- A significant number of projects surveyed had yet to be completed when their responses were included in the survey results. Had the survey been based only on projects that were completed and operating, it would have provided more assurance that the reports of jobs created accurately captured the full impact of a project on employment.
- The Agency did not thoroughly review the potential impact (either positive or negative) that the non-respondent population had on the survey results. There was no response on 566 of the 1173 projects selected (48 percent). In our view, the Agency could have gained more assurance of the reasonableness of the estimates based on the survey information by examining and adjusting for the characteristics of non-respondents' projects.

**18.40** Since the Agency's database contains information gathered at the time of application, it is not a source of information on the program's actual direct impact. Notwithstanding the problems we observed with the survey of clients, we believe that if the results had been fully adjusted, they would have provided a more accurate estimate of the number of jobs created than does applying a success rate to the database of jobs expected.

**18.41** The Agency conducted a case study of tourism accommodation to assess the impact that its support to recipients had on competitors in the selected areas. This impact, known as displacement, was

The survey reported a higher number of jobs created than noted in agency files.

All jobs created were assumed to last for 10 years.

The Action Program results reported have significant limitations.

examined but not quantified and, therefore, could not be incorporated into the determination of the program's impact. Although we were able to identify examples of the measurement of displacement in European evaluations, we could not find examples in evaluations of similar Canadian programs.

**18.42** An important assumption included by the Agency in the modelling exercise was that all of the jobs created by the program would last for a period of 10 years. Although this assumption had a significant impact on the output of the econometric modelling exercise, we found no reliable evidence to validate its use. The Agency believes that this is a reasonable assumption: some projects will do better than expected and some will do worse than expected over the 10-year period, but the results will balance out over time. The Agency had a short program history upon which to base the assumption of the duration of the jobs created.

**18.43 Subsequent adjustments for reporting to Parliament.** The final results reported to Parliament incorporated the following adjustments, which were estimated as part of the evaluation but were not used during the evaluation to measure direct impacts:

- an estimate of the number of jobs maintained by the program;
- an estimate of the number of jobs both created and maintained by those projects that were not incremental, using the Agency's most conservative estimate (a project that is not incremental would likely have proceeded with the same scope, at the same time and in the same location without government assistance); and
- an estimated success rate of 96 percent in achieving actual job creation and 108 percent in achieving actual job

maintenance, as compared with the estimates made at the time of application.

**18.44** In addition, the Agency adjusted the output of the modelling exercise so that another year of experience could be included in its reports to Parliament.

**18.45** We concur in principle with these adjustments but are concerned that the Agency incorporated an estimate of jobs maintained into the econometric modelling without a rigorous estimation of the input. The Agency essentially followed the same process to estimate jobs both created and maintained. We noted the same problems in the estimate of jobs maintained as we found in the estimate of jobs created. Further, we noted that some of the surveyed projects reported significant numbers of jobs maintained, when job maintenance was not part of the Agency's rationale for its original support of the projects. In future evaluations, the Agency needs to analyze critically the likelihood and extent of job loss in projects before it estimates the "value added" to be input for modelling purposes.

**18.46 Conclusion.** We found that the overall approach and the econometric model used by the Agency were appropriate. However, because of the concerns noted about the input data and modelling assumption used, the Action Program results reported in both the evaluation and reports to Parliament have significant limitations. In our view, the Agency can correct these problems in future evaluations.

**18.47 The Agency should improve its measurement processes for future evaluations of the Action Program to reduce the problems associated with the input and assumptions used in the econometric modelling exercise.**

*Agency's response: In measuring the impact of its programming on job creation and economic growth, the Agency, as the*

AG indicates, "has gone beyond most common practice..." In order to do so, it had to develop new measurement techniques. Inevitably, the first-time use of these techniques involves limitations on the precision of the estimated results. While the Report notes examples of the 51 cases it has analyzed where it believes the number of jobs created has been overestimated, it notes there is no basis to suggest a different estimate of overall jobs created for the approximately 6,000 companies supported. The client survey was designed to capture the full employment impact on a firm basis of marketing and innovation projects resulting from increased product sales and not just the expansion of employment in the marketing or research department. Also, it could be argued that the number of jobs was underestimated for those projects that had not reached their full potential at the time of the survey. While there will always be limits to the accuracy of estimates, ACOA believes its estimates are reasonable given available resources and the methodology of the day.

Now that the measurement techniques have been established, the Agency plans to move to improve their accuracy on the basis of additional program experience and with the benefit of the OAG's observations.

### Measuring results — COOPERATION Program

**18.48** The Agency's evaluation of the COOPERATION Program was conducted using information from client surveys, interviews, and case studies and by analysis of information from individual COOPERATION agreements and external sources. The evaluation was based on all COOPERATION agreements signed by 31 March 1993.

**18.49** Determining the direct impacts of the COOPERATION Program was much more complex than for the Action

Program because of the nature of the activities funded and, as we have noted, the absence of results information for individual COOPERATION agreements. Hence, a large number of assumptions had to be made to estimate the direct impacts of the program. The reasonableness of assumptions is crucial to the ultimate estimate of macro economic impacts indicated by the econometric modelling exercise.

**18.50** We examined the five sectors or expenditure areas on which the Agency estimated the COOPERATION Program had the most significant direct impacts: human resource development, mining, forestry, highways and business support. We have concerns about some of the underlying assumptions that were used:

- The information used to estimate the direct impacts on these sectors often came from sources that were not validated, either by program evaluations for the individual COOPERATION agreements covering these sectors or by any other means, as representative of activities funded under the program. The Agency believes that the information it used represented appropriate proxies for the activities supported, but we found no reliable evidence to demonstrate this relationship.

- For commercial projects, information on direct impacts was taken from the Action Program. The problems noted with the Action Program evaluation were thereby incorporated into the COOPERATION Program evaluation.

**18.51** The COOPERATION Program evaluation was conducted on both a retrospective and a prospective basis. That is, the evaluation incorporated results from actual expenditures up to 31 March 1993, the effective date of the evaluation, with projected results based on commitments for future expenditures from 1 April 1993 to 31 March 1997. Of the

The results reported for the COOPERATION Program are largely based on assumptions.



\$1.3 billion in total program spending covered by the evaluation, approximately 44 percent represented expenditures actually incurred, while the remaining 56 percent represented commitments for future expenditures. Therefore, for the last four years covered by the evaluation, the reported results included both the expected future impacts of incurred expenditures and the expected future impacts of planned expenditures.

**18.52 The Agency should ensure that its results measurement clearly distinguishes between the results of the direct impacts of incurred expenditures and the forecasts of impacts of future expenditures.**

*Agency's response: The Agency's first Five Year Report to Parliament emphasized the additional jobs resulting from Agency programming over the 1987-92 period, the first five years of the Agency's life. Clearly, the job impact to 1992, a total of 42,000 jobs from the Action and COOPERATION programs combined, results only from incurred expenditures. However, in order to provide information to guide decisions on future funding for the COOPERATION Program, ACOA, in consultation with the provincial governments, believed it was necessary to estimate the impact resulting from the total commitments already made by the federal government and the Atlantic provinces as of March 31, 1993. In this way, the full impact of the agreed-upon funding allocation to the COOPERATION Program could be examined.*

*In the future, the Agency will endeavour to more clearly delineate the impacts of incurred versus forecast expenditures in both program evaluations and within the evaluation of the individual COOPERATION agreements.*

## Measuring results — Advocacy

**18.53** ACOA has reported that federal procurement in the Atlantic provinces increased in the three years after its creation, by 70 percent over the three preceding years. In addition, the Agency used case studies to demonstrate the impact of individual advocacy initiatives. Our audit included a review of the data used to make the overall claims.

**18.54** We found that the data used to make the overall claims about increases in federal procurement in the region came from a Department of Supply and Services document. However, that document states:

The statistics provided cannot properly be used to identify the effects of federal contracting in generating economic activity within Canada.

**18.55** We were not able to identify any other source of information to support the results claimed by the Agency.

## Reporting results to Parliament

**18.56** The most important vehicles for reporting the results of the Agency's activities have been its Part III of the 1994-1995 Estimates and its 1988-1993 Five-Year Report to Parliament. Information contained in these reports came, for the most part, from the program evaluations, as subsequently adjusted. The results information is considerable and relevant to the Agency's legislated objectives.

**18.57** Information on the number of jobs created by the Action Program, the COOPERATION Program and both programs combined was reported on different bases and for different time frames. Measures presented were not fully explained in the reports. In certain instances, the reported number of jobs created included only those jobs expected



to be created directly by the program, without adjusting for incrementality or the measured success rate. In others, it included an estimate of both the direct and indirect jobs created and maintained, and was adjusted for incrementality. Exhibit 18.4 displays the information on results that the Agency has reported to Parliament. We are concerned that information prepared using different methodologies, over different time frames, and reported in a fragmented way is difficult to understand and place in an appropriate context.

### Recent Agency activity

**18.58** The first evaluations undertaken by the Agency represent a major effort to measure the macro economic impact of its programs. The Agency has learned a great deal from this experience and is taking steps to build on the knowledge acquired. In the Action Program, the Agency is developing intermediary indicators for such areas as export trade, tourism and entrepreneurship. It is also undertaking a new survey of Action Program clients to update information on the program's impact.

## Project Management and Decision Making

### Introduction

**18.59** We audited a random sample of 100 projects approved or applied for between 1 October 1993 and 30 September 1994 under the Action, Fisheries Alternatives and COOPERATION programs. In addition, we audited all 16 projects with assistance greater than \$1 million approved during the same period.

**18.60** We reviewed the documentation in each project file and met with the responsible account manager and compliance officer. We visited a few of the applicants to get their views, to see the projects and to ensure that the Agency's documentation described the projects accurately.

**18.61** We audited the Action and Fisheries Alternatives programs separately from the COOPERATION Program because there are significant differences in the programs' objectives, control frameworks and delivery.

**18.62** The Action Program is delivered directly by Agency officials. Terms and conditions approved by the Treasury Board provide regulatory guidance for the program, supplemented by internal policies and procedures. The Fisheries Alternatives Program had a similar control framework.

**18.63** The COOPERATION Program is a federal-provincial, cost-shared program, with a series of agreements covering specific industry sectors, geographic areas or subjects in each province. Individual agreements outline objectives and eligibility criteria for accepting or rejecting project proposals. COOPERATION agreements are delivered primarily by provincial officials, on behalf of both levels of government. Each agreement is managed by a committee of federal and provincial officials, who are responsible for its overall delivery.

**18.64** Typically, the federal government funds 70 percent of the cost of projects under the COOPERATION agreements. Exhibit 18.7 summarizes the COOPERATION agreements in place as of 31 March 1995. COOPERATION agreements implemented by other federal

The results reported to Parliament are difficult to understand and place in an appropriate context.

government departments were outside the scope of our audit.

### Assessment of projects under the Action and Fisheries Alternatives programs

**18.65** The private sector invests in physical assets, market studies or research and development for commercial reasons, based on the anticipated return. When government provides support for private sector activities, it assumes part of the private sector's business risk in order to obtain economic benefits for a region or for the country as a whole. In both instances, an assessment of the proposed activity is necessary before a decision is made to spend funds. Inevitably, some investments will not be successful. The use of public funds to support commercial activities places a great deal of responsibility on public servants to ensure that reasonable and prudent analysis is carried out before a decision is made to support a project.

**18.66** The basis for ACOA's support of an economic development project under the Action and Fisheries Alternatives programs is set out in the terms and conditions approved by Treasury Board. For commercial projects, the key factors to consider are:

- **Incrementality** — Is it probable that the applicant requires government funding for the project to proceed as proposed in terms of scope, location and timing?

- **Commercial viability** — Can the project become commercially viable without further government assistance?

- **Net economic benefit** — Will the project have a positive net impact on the economies of Atlantic Canada and Canada as a whole? For example, would supporting a project reduce the business opportunities of other businesses in Atlantic Canada?

- **Risk sharing** — Can the applicant provide appropriate capital for the project? In other words, is the applicant assuming an appropriate level of risk to ensure its commitment to the success of the project?

**18.67** For non-commercial projects, we asked if the Agency determines whether a proposed project addresses a need already being met by the government, not-for-profit or private sector. We also assessed, where appropriate, whether such projects are sustainable in the long run.

**18.68** The Agency also has the following guidelines for assessing projects. If total project cost is:

- **\$200,000 or less.** Minimal information is required (application form,

#### Exhibit 18.7

COOPERATION Agreements  
in place as at 31 March 1995

Province	Number of Agreements		Federal Expenditures (million \$) as at 31 March 1995	% expired as at 31 March 1995
	Implemented by ACOA	Other federal departments		
New Brunswick	5	8	306.2	16
Nova Scotia	6	8	214.7	49
Prince Edward Island	9	6	80.9	39
Newfoundland	8	7	182.9	33
Pan-Atlantic	4	1	5.2	—
<b>TOTALS</b>	<b>32</b>	<b>30</b>	<b>789.9</b>	<b>33</b>

Source: Atlantic Canada  
Opportunities Agency

assessment of the applicant's local market area, project description, latest annual financial statements, profile of key individuals, products and facilities and a one-year financial forecast in certain situations). As shown in Exhibit 18.8, the majority of projects fall in this category.

- **>\$200,000 to \$2 million.** A more in-depth analysis of financial statements, obtaining financial projections in all situations, assessing the project's impact on Atlantic Canada and visiting the project, etc. are required.

- **>\$2 million.** A full in-depth examination of the applicant, its market, financial position, etc. is required.

**18.69** The terms and conditions for the Action Program specify basic criteria such as eligible activities, eligible enterprises, eligible costs and levels of assistance relative to cost. All of our sample projects met these basic eligibility requirements. Account managers are knowledgeable about these requirements and the procedures necessary to ensure that they are applied properly.

**18.70** Beyond the basic eligibility requirements, the analysis performed in deciding whether to provide financial assistance was limited to what the Agency's guidelines required. Although the appropriate information required by

Agency guidelines was generally gathered, we noted instances where obvious concerns were not addressed.

#### **18.71 Definition of project objectives.**

We had expected that project objectives would be defined to show the expected economic results of the project. But in 26 percent of the cases, the outcomes were described as activities to be accomplished rather than as expected economic results.

**18.72** Exhibit 18.9 shows examples that illustrate our concerns, and also provides instances where results were stated in terms of the economic benefits to be achieved. One way to explain our concern is that it is impossible for a project to "fail" if the objective is limited to an activity such as hiring a marketing manager or conducting a study, without

**We noted instances where obvious concerns were not addressed.**

**Exhibit 18.8**

#### **Profile of Project Applications under the Action and Fisheries Alternatives Programs from 1 October 1993 to 30 September 1994**

<b>Project Size: Total Cost</b>	<b>Number</b>	<b>% of Total</b>
\$200,000 or less	2,699	85
> \$200,000 TO \$2 million	447	14
> \$2 million	41	1
<b>TOTAL</b>	<b>3,187</b>	<b>100</b>

Source: Agency Data Files

**Exhibit 18.9**

#### **Defining Project Objectives**

##### **Examples of Activity-based Project Objectives**

- To undertake marketing activities or to implement a marketing agreement. (The expected result of the implementation is not identified).
- To obtain funding for the acquisition of equipment. (The expected result of using the equipment is not identified).

##### **Examples of Results-based Project Objectives**

- To expand a facility and purchase equipment to meet market demands from outside the region.
- To engage consultants and specialists to improve quality control systems in order to obtain international certification.

Source: Review of Action Program Project Files



linkage to a result such as increased sales or use of underutilized production capacity.

**18.73 Incrementality.** Generally, we found that the Agency's procedure for determining the need for government funding was to ensure that the applicant signed a declaration stating that the funds were required. In 19 percent of the commercial cases we reviewed, there were indications that the applicant had sufficient means to raise the necessary funds for a proposed project.

**18.74** There may be other appropriate reasons for funding an applicant. For example, other jurisdictions may offer incentives or the funding may be necessary to yield a sufficient return for a project to proceed in the Atlantic region. However, we could not find evidence that the Agency had analyzed these issues. Exhibit 18.10 shows examples that illustrate the nature of our concerns.

**18.75 Net economic benefit.** If the benefits of an Agency-supported project are less than any damage to an existing enterprise, there is no net benefit to the region. The Agency's terms and conditions approved by the Treasury Board require that project proposals be considered for their net benefit to Canada and Atlantic Canada. The Agency's internal guidelines for applications of

\$200,000 or less require consideration of the impact on only an applicant's local market area. In cases where the analyzed impact was wider, it was usually limited to a province rather than applied to the region as a whole. However, the Agency has indicated that this assessment is supplemented by ad hoc studies of industry sectors and other research.

**18.76** Nevertheless, we found in 23 percent of projects we examined that the Agency did not appear to have considered adequately the net economic benefit to the Atlantic region. Based on the limited information gathered under the Agency's guidelines, we noted instances where providers of a service or product already in business in Atlantic Canada could be hurt by Agency support of a project.

**18.77 Viability.** From the point of view of economic development, this criterion is important because viable commercial projects provide ongoing employment, create wealth and pay taxes. In 17 percent of the commercial cases we examined, we found that the project analysis did not deal with key issues affecting the viability of projects. In particular, projections were based on incomplete or unreasonable assumptions, and significant risks associated with future success were not addressed. Exhibit 18.11 provides examples of the Agency's assessments.

**18.78 Risk sharing.** The terms and conditions approved by Treasury Board require applicants to invest in their own projects. Although the amounts invested varied, the required level of investment was adhered to in all the projects in our sample.

**18.79 Non-commercial projects.** For the non-commercial projects we examined, we found examples where the services of the applicant were currently being provided by another entity, where the net economic benefit to the Atlantic

#### Exhibit 18.10

#### Assessing Incrementality

##### Examples Where Incrementality Was Not Addressed Fully:

- Application for \$29,000 in ACOA funding for a project to improve quality control in a division of a profitable national company with significant sales.
- Application for marketing assistance of \$125,000 over three years by a company with a gross profit greater than \$1 million.

Source: Review of Action Program Project Files



region had not been considered adequately or where the financial sustainability of the applicant had not been addressed adequately.

**18.80 Efficiency of delivery.** As part of our review, we assessed whether the Agency was meeting its own standard of 45 days to reach a decision on an application for Action Program assistance. Based on a random sample of 50 project files, the average time to process an application was approximately 40 days.

**18.81** Measuring decision-making times should begin from the day when substantially all information is received, but that date was not identified regularly in Agency records. As a result, the overall average performance time recorded in our sample results could overstate the actual application processing time.

#### **Monitoring and control of projects under the Action and Fisheries Alternatives programs**

**18.82** The Agency's monitoring of supported projects begins during the release of funds to the applicant. The Agency's compliance staff examine documentation submitted by the applicant and ensure that it supports the costs claimed. They also review compliance with terms of the contract before any funds are released. After an applicant has received all of the allotted funding, the Agency will contact the applicant toward the end of the control period (normally 24 months after commencement of the project's commercial production) to determine the status and results of project activity.

**18.83** Monitoring the success of individual projects can provide significant information for account managers in their analysis of subsequent proposals and can provide the Agency with feedback about

the achievement of its objectives, provided it is done on a regular and timely basis.

**18.84** We expected that the Agency would play an active role in monitoring all stages of supported projects. In particular, we expected that it would ensure that conditions of assistance were met, that the government's financial and development interests were protected and that project progress and results were identified.

**18.85** The importance of these activities increased with the Agency's announcement that effective 7 February 1995, all direct assistance to commercial organizations under the Action Program would be made repayable.

**18.86 Monitoring compliance with payment conditions.** The Agency does a good job of monitoring compliance with the payment conditions of contracts with applicants. Compliance officers are attentive to the Agency's guidelines and to conditions established in the contract. Compliance monitoring consumes the majority of the Agency's monitoring resources.

**Compliance monitoring is strong.**

#### **Example Where Viability Was Not Fully Addressed:**

- A project was approved to assist a company in securing patent rights for a product. At that time, the right to the patent was disputed by another company.
- Applicant's projected increase in operating profit does not exceed the financing costs and salary costs associated with the project.

#### **Example Where Viability Was a Factor in Rejection:**

- Existing competition viewed as too strong for the project to be successful.

#### **Exhibit 18.11**

#### **Assessing Viability**

**Source:** Review of Action Program Project Files

## Monitoring project progress and results needs improvement.

### **18.87 Monitoring project progress.**

Besides the monitoring for contractual commitments, the Agency's priority areas for monitoring are:

- the collection of repayable contributions;
- the status of loan guarantees; and
- contributions greater than \$100,000.

**18.88** While we recognize the importance of these matters as well as the limitations of the Agency's resources, these priorities do not currently apply to the majority of the Agency's activities. Therefore, we believe that it is also important for the Agency to ensure that the largest portion of its activities are subject to review in order to ensure that supported projects continue to operate and that they remain financially viable. Such monitoring activities are important to the achievement of the Agency's development objectives.

**18.89** For 28 percent of the projects we audited, progress had not been adequately monitored, or timely financial information had not been obtained. For example, we noted instances where advances of funds had been made six months or more before our review, but the Agency did not have information on the progress of the project or the current financial status of the applicant.

**18.90 Monitoring project results.** It is important to obtain information on the results of the project and to use it as input to future decisions on whether to support similar projects or industries. Agency officials have informed us that the extent of monitoring of results is limited to self-assessment by the applicant, verified only infrequently and not recorded in the management information system. The Agency has stated that rather than assessing results on a project-by-project

basis, it evaluates project results through ad hoc surveys and studies of industrial sectors and through periodic program evaluations.

**18.91** Although the nature of our sample did not permit us to evaluate the Agency's results-monitoring activity, we have previously noted that the Agency does not, as a matter of course, gather information on actual project results. The Agency is currently reviewing the cost effectiveness of all of its payment and monitoring processes.

## **Conclusion**

**18.92** Obviously, it is not possible to design a system that can guarantee that all projects approved will succeed. In many cases, the Agency's analysis dealt appropriately with the risks to its economic development objectives. However, in a number of cases the analysis did not address significant risks to meeting one or more of the key economic development criteria.

**18.93** The guidelines issued to account managers were developed at a time when the typical project had a higher value than it does today. Now that the vast majority of Agency projects fall into a category requiring limited review, we believe the Agency needs to re-evaluate the appropriateness of its guidelines. The underlying question that must be addressed for each proposal is why the government should provide support for the project.

**18.94** The Agency's current monitoring activities do not adequately reflect the current nature of its development activities. While the Agency concentrates its monitoring resources on issues of compliance with payment conditions, we are concerned that project progress and results are not addressed adequately.

**18.95** The Agency should ensure that the expected project results are specified and clearly linked to the objectives of its programs (increased export sales, innovation, etc.). The Agency should modify its assessment procedures to require that analysis be based on risks to achieving its goals, as well as on project size.

**18.96** The Agency should consider implementing monitoring procedures that address its current development activities. Account managers should have an understanding of client operations and the progress and results of projects.

*Agency's response:* The Report identifies the fundamental criteria for the evaluation of applications and comments on the adequacy of Agency performance in satisfactorily addressing each. We are pleased that in the majority of cases, ranging from 72 percent to 83 percent, the OAG has not found any significant problems.

#### Project Objectives

The Agency fulfilled the aspects of project results measurement for the majority of cases, through the program evaluation exercises. Consequently, ACOA recognizes the need to identify project objectives, both in terms of the projects' success and also in terms of their relationship with overall program objectives and Agency strategies. To ensure that this requirement is addressed effectively, ACOA completed a review of applicable functions; recommendations from that exercise include improvements in the internal process of objective determination and measurement. Since early in its mandate, the Agency has had program evaluation frameworks to help address the need for results measurement. Similarly, the Agency

*initiated an evaluation framework for new programming and the deliverables for this product include the identification of data and information requirements for project objectives and their linkage to Agency strategies.*

*The Agency has also used results from the OAG audit to improve the application assessment procedures. The Agency has always reflected risk to project size; however, formal procedures are being developed that will evaluate risk to project goal achievement and link that analysis to assessment decisions.*

#### Monitoring

*The Agency accepts the OAG findings that, while ACOA has done a good job of monitoring compliance with the payment conditions, Agency monitoring of individual project progress/results should be improved. Complete repayability of commercial assistance, and other results of Program Review in 1994, changed the nature of the Agency. In light of this, we have implemented program enhancements and realigned resources, so as to further emphasize the role of the Account Manager throughout the monitoring function, thereby improving current knowledge of project progress and results. ACOA will continue to perform aggregate benefits monitoring through application of statistically valid sampling.*

#### **Assessing, monitoring and controlling projects under the COOPERATION Program**

**18.97** COOPERATION agreements are typically delivered by provincial officials on behalf of both levels of government. It is clearly not cost-effective for the Agency to operate a duplicate control structure. However, it needs a means of obtaining assurance that the federal government's



objectives and interests are being protected.

**18.98** Individual COOPERATION agreements are the documents governing the implementation of the program. The agreements do not explicitly require consideration of incrementality, net economic benefit or commercial viability/sustainability. Therefore, it is not surprising that the application of these criteria often was not evident when we reviewed the project files. The percentage of exceptions was the same as or greater than we found in the Action Program. We also reviewed COOPERATION projects to determine if project objectives were defined in terms of expected results rather than as activities. As with the Action Program, we found that objectives were frequently specified as an activity to be completed rather than as an expected result.

**18.99** We found that most projects were eligible under the federal-provincial agreement. In fact, the eligibility criteria and objectives are quite broad for most agreements — so broad that projects that appear to be peripheral to the overall program objectives are supported. We found it difficult to determine how some projects were contributing to COOPERATION Program objectives. For example, we reviewed an agreement intended to revitalize urban cores. Many of the projects involved painting buildings or replacing siding. Another agreement was intended to diversify the economy of an area by developing human resources and supporting economic diversification to increase incomes and employment. In reviewing a sample of approved projects under this agreement, we found they assisted industries that were already well established in the area. Although the projects were eligible under the

agreements, it was difficult to link them to the economic diversification objective.

**18.100** Also, in reviewing agreements designed to support community economic development, we could not identify a clear definition of roles and responsibilities or what these organizations are accountable for achieving. This is particularly important to avoid duplication, because the federal and provincial governments continue to deliver economic development programming in these communities.

**18.101** Many of the COOPERATION agreements expired on 31 March 1995. The federal government has announced its intention to negotiate one broad federal-provincial agreement with each province. We believe this is an opportunity to negotiate agreements that incorporate the accountability features, key economic assessment criteria and results orientation necessary to ensure that federal priorities are addressed.

**18.102** In negotiating future COOPERATION agreements, the Agency should attempt to incorporate the following aspects of accountability:

- clear, measurable and results-oriented objectives that flow from the COOPERATION Program objectives;
- eligibility criteria that embody key development concepts such as incrementality, net economic benefit, viability and risk sharing; and
- assignment of responsibility for monitoring activities and gathering and reporting information on results and financial performance of projects.

*Agency's response:* ACOA recognizes the intent of the recommendations and the Agency has already made significant strides in addressing the federal responsibilities through the program evaluation exercise. The co-ordination of

Eligibility criteria and objectives for COOPERATION agreements are quite broad.



*program evaluation requirements in the context of differing practices and capabilities among the four provinces remains a complex and challenging activity. ACOA led the progress in the accountability aspects of past agreements and remains committed to similar effort on future agreements.*

*Additionally, the Agency:*

- *has improved and will continue to improve the clarity and measurability of its program objectives. This effort will be reflected in the development of program evaluation frameworks, which continue to be a requirement of all agreements.*
- *will enhance the use of incrementality, net economic benefits, viability and risk sharing in its eligibility criteria.*
- *will also ensure that responsibility for monitoring activities and gathering and reporting information on results and financial performance of projects is clearly assigned.*

## Co-ordination

### Background

**18.103** The direction to ACOA to co-ordinate federal economic development in Atlantic Canada is clear and specific:

The Minister shall co-ordinate the policies and programs of the Government of Canada in relation to opportunity for economic development in Atlantic Canada.

**18.104** As part of this responsibility, the Minister responsible for the Agency has the authority to enter into agreements with the government of a province to carry out the Agency's programs.

**18.105** The federal, provincial and municipal governments all have economic development policies and programs for

their respective jurisdictions. Within the federal government, many programs exist that have significant implications for regional economic development. While ACOA can attempt to co-ordinate or influence the programming and activities of other departments, at least within Atlantic Canada, it does not have responsibility to deliver the programs of other departments.

**18.106** Federal and provincial governments in Atlantic Canada have a long history of working together in the field of regional economic development. However, expenditure reductions have led all governments to examine ways to work more co-operatively and to increase the efficiency and effectiveness of programming.

**18.107** The Agency's most visible co-ordination efforts are the federal-provincial agreements under the COOPERATION Program. The Agency has become increasingly involved in co-ordinating the economic development component of federal government responses to key industry crises, such as the fishery crisis, and to the economic impacts of significant federal expenditure reductions, such as military base closures.

### Support of third-party economic development initiatives

**18.108** Through both the Action and COOPERATION programs, the Agency provides core funding support to various non-commercial organizations involved in economic development, including universities, community economic development organizations, industry associations, etc. Although the majority of funding goes toward the supported development activity, in many instances the Agency is funding administrative overhead. Our analysis of the funding arrangements with third parties in 3 of the 16 high-value Action and

**The Agency obtains limited performance information from third parties.**

COOPERATION projects in our sample found that 24 percent of the funds went toward the cost of administrative overhead. Although the Agency records the costs of individual projects, it does not accumulate the overall cost of administering the economic development activities it supports.

**18.109** The current COOPERATION agreements have been structured to rationalize the community economic development network in three of the four Atlantic provinces. The thrust of the rationalization is a reduction in the number of community economic development organizations, with a resulting reduction in administrative overhead. Although the Agency is a significant contributor to the funding of the community economic development network, these organizations provide very little in the way of performance information to the Agency. Therefore, the Agency does not have assurance that their activities are contributing significantly to the economic development of the region.

**18.110** The Agency should require improved reporting of results by non-commercial organizations, including the community economic development network.

*Agency's response: The Agency will clarify with non-commercial organizations, including community economic development organizations, the nature and scope of the performance information it requires.*

*The Agency recognizes the positive comments in the Report concerning the pan-Atlantic initiatives and will continue to pursue opportunities within that framework of delivery.*

**Assessment of recent co-ordination initiatives**

**18.111** The Agency is taking an active approach to co-ordinating certain initiatives. It has forged several sectoral partnerships in an effort to provide a more co-ordinated approach to development activities in these sectors. We examined two of the Agency's recent co-ordination initiatives.

**18.112 Atlantic Canada Tourism Partnership.** In 1992 and subsequent years, the Agency entered into arrangements collectively with the provincial tourism associations and provincial governments, covering tourism industry activities such as domestic and international marketing, accommodation grading, research and human resource development. Together these arrangements are called the Atlantic Canada Tourism Partnership. Prior to the Partnership, the Agency provided support directly to provincial governments or provincial tourism associations but not on an Atlantic-wide basis.

**18.113** The Partnership is a semi-formal association of the key players in the tourism industry in Atlantic Canada, including the four provincial tourism deputy ministers, the four presidents of the provincial tourism industry associations, an Agency representative and a Canadian Tourism Commission representative. The members meet regularly to discuss and develop co-ordinated tourism development strategies and activities. Individual initiatives are delegated to either provincial or industry staff. As a result of the Partnership, the significant participants in Atlantic Canada's tourism industry work together on common industry-wide initiatives.

**18.114** The Agency is in the process of establishing baseline data for future evaluations. This Partnership is a major

step toward achieving a focussed, co-ordinated approach to developing Atlantic Canada's tourism industry.

#### **18.115 Geomatics Industry**

**Development Initiative.** The Geomatics Industry Development Initiative began as a proposal to support a development fund for research in Atlantic Canada in geomatics, or automated geographic information systems. The Agency responded to the proposal by entering into a process of negotiation, consultation and co-ordination with stakeholders to determine the appropriate approach to development of the industry. In addition, it commissioned a market study of the geomatics industry to identify opportunities for Atlantic Canadian firms. The process led to a clear definition of goals and objectives for the initiative. The consultation and co-ordination were important to the development of the final plan.

**18.116** The final initiative was an undertaking by the Agency to provide

\$10 million over three years to help private sector projects designed to develop new products and services. Proposals were reviewed against a detailed set of criteria by a panel of experts from government departments, academe and industry. The process for selection of the projects was extensive and thorough.

**18.117** Several marketable products have resulted, although it is too early to evaluate the overall success of the initiative. The Agency's approach ensured a co-ordinated effort to develop the geomatics industry in Atlantic Canada.

#### **Conclusion**

**18.118** We are encouraged by the Agency's efforts to co-ordinate its economic development activities with other levels of government. In our view, such efforts to improve the co-ordination of all economic development programming are important opportunities to reduce overlap and duplication.

**The Agency has shown progress in co-ordinating economic development activities.**

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## **Chapter 19**

**Federal Office of Regional  
Development – Quebec**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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## Federal Office of Regional Development – Quebec

*Assistant Auditor General: Michael J. McLaughlin*

*Responsible Auditor: Micheline Éthier Massicotte*

### Main Points

**19.1** The Federal Office of Regional Development – Quebec (FORD–Q) became a separate department in June 1991. Until 31 March 1995, a major part of its programs were based on a strategy adopted in 1988 by Industry, Science and Technology Canada (now Industry Canada), from which it had emerged.

**19.2** FORD–Q has not set results-oriented operational objectives for each of its programs. It had only a few relevant, useful indicators for monitoring of key aspects of program performance and for periodic evaluation of those programs.

**19.3** Information provided to Parliament is insufficient for assessing the extent to which the Department has attained its objectives, both legislative and operational.

**19.4** FORD–Q has adopted general criteria for analyzing applications for financial assistance. The Department should draw on its experience to improve the analysis of applications; it should adapt this analysis to the size of the contribution, the type of applicant and the nature of the project in order to select the projects most likely to help in achieving its regional development objective.

**19.5** The Department has signed co-operation agreements with other federal departments and agencies to improve synergy among organizations. It has also worked to forge partnerships at a more strategic level.

**19.6** The Department is undertaking a major revamping of its activities. While the development phase for a new activity framework has gone well, major challenges still lie ahead. Successful implementation of the new framework will require a sustained effort by management as well as appropriate mechanisms.



## Introduction

**19.7** Economic indicators show that Quebec's economy has not performed as well as the Canadian economy as a whole. Between 1985 and 1994, the average annual increase in per capita gross domestic product was slightly lower in Quebec than in Canada as a whole. During this period, Quebec's average annual unemployment rate was higher than the national average. Per capita earned income was consistently lower than the national average between 1989 and 1993 (see Exhibit 19.1).

**19.8** Regional development is a major concern at the various levels of government in Quebec. Over the past 15 years, federal responsibility for regional development has been gradually decentralized to respond more effectively to regional needs and to foster greater involvement by the communities affected. Establishment of the Federal Office of Regional Development – Quebec (FORD–Q) as a separate department in June 1991 was a result of this decentralization.

**19.9** Although FORD–Q was created in 1991, its activities until 31 March 1995 were based primarily on a strategy developed in 1988. They were essentially a continuation of the activities implemented at that time and were heavily impregnated with the objectives, practices and operating methods of Industry, Science and Technology Canada (now Industry Canada), which was formerly responsible for regional development in Quebec.

## The Mandate of the Federal Office of Regional Development – Quebec

**19.10** The legal mandate of FORD–Q is “to promote the economic development of the regions of Quebec with low incomes, slow economic growth, or inadequate possibilities for productive employment, by emphasizing long-term economic development and sustainable employment and income creation while concentrating efforts on small and medium-sized enterprises and on the development and enhancement of entrepreneurial talent.”

**19.11** This mandate is broad, complex and ambitious. To attain the objectives the mandate entails, FORD–Q was given responsibilities for defining the overall direction of regional development policy in Quebec, for negotiating the necessary development agreements with the Quebec government in partnership with the federal departments involved, for recommending the allocation of funds from the federal regional development reserve (eliminated

**Federal responsibility for regional development has been gradually decentralized to respond more effectively to regional needs.**

**Exhibit 19.1**

### Economic Indicators

	Quebec	Canada
<b>1985 – 1994</b>		
Average annual increase in per capita gross domestic product	1.12%	1.18%
Average unemployment rate	11.2%	9.6%
<b>1989–1993</b>		
Per capita earned income		
– 1989	\$ 12,960	\$ 14,150
– 1990	\$ 13,461	\$ 14,624
– 1991	\$ 13,603	\$ 14,801
– 1992	\$ 13,853	\$ 14,945
– 1993	\$ 14,052	\$ 15,143

Source: Statistics Canada

**FORD-Q's mandate is broad, complex and ambitious.**

in the 1995 federal Budget) and for ensuring the implementation of the development initiatives that are within its scope.

**19.12** With an average annual budget of \$200 million, FORD-Q carries relatively limited weight in comparison to all the other instruments of intervention established by the federal government for equitable distribution of the national wealth.

### Programming

**19.13** FORD-Q's intervention has been guided by a commitment to co-operation, co-ordination and harmonization with the Quebec government and by a concern for adapting activities to the specific needs of the regions. The Department has favoured financial assistance programs as the primary vehicle for fulfilling its mandate. Between 1 April 1988 and 31 March 1995, it implemented nearly 30 such programs,

some 20 of which were under the Canada-Quebec Economic and Regional Development Agreement. Exhibit 19.2 describes the objectives of three of these programs and indicates the funds committed for each as of 31 March 1995.

**19.14** All of these programs use the same mechanism: financial assistance in the form of contributions to commercial and non-commercial undertakings. The funding is intended to be used to acquire capital assets or to conduct studies such as feasibility or marketing studies; in some cases, the contributions finance the operating costs of non-commercial undertakings. The amount of assistance to a project varies depending on the program and the region of Quebec.

**19.15** Since February 1994, FORD-Q has been managing the federal share of the Canada-Quebec Infrastructure Works Agreement; this agreement was excluded from the scope of our audit.

#### Exhibit 19.2

**Objectives of Three Financial Assistance Programs and Funds Committed as at 31 March 1995**

##### Enterprise Development Program (\$111 million)

- Industrial Component: To foster entrepreneurship by encouraging small and medium-sized businesses to start up, expand, modernize and become more competitive, and to encourage industrial diversification in the resource regions.<sup>1</sup>
- Tourism Component: To promote and strengthen the tourism industry, stimulate the development of quality tourism products and increase the number of visitors from outside the resource regions.<sup>1</sup>

##### Manufacturing Productivity Improvement Program (\$115 million)

To strengthen the industrial base of the central regions of Quebec<sup>2</sup> by promoting the emergence and growth of dynamic businesses and to foster industrial competitiveness by encouraging businesses to become more productive and introduce new technologies.

##### Montreal Development Fund Program (\$27 million)

To intensify the federal government's efforts in its seven priority development axes for the Montreal region: high technology, international trade and finance, design, international activities, cultural industries, tourism and transportation.

<sup>1</sup> The resource regions extend from the eastern to the northwestern section of the province of Quebec. Their economy is dominated by the exploitation and primary processing of natural resources as well as by the tourism industry.

<sup>2</sup> The central regions cover the entire southwestern portion of the province of Quebec. Their economic activities are based on both the processing of natural resources and traditional industries (textiles, clothing, furniture, pulp and paper).

Source: Federal Office of Regional Development – Quebec



**19.16** Responsibility for the Canada-Quebec Subsidiary Agreements on Industrial Development, which supported large businesses' major projects, was transferred to Industry Canada in the fall of 1994. Our Office audited the agreements and the findings are reported in Chapter 21 on Industry Canada. However, the data presented in the following paragraph and in Exhibits 19.3 and 19.4 encompass all the projects approved and funds committed under those agreements up until the time of their transfer.

**19.17** Overall, the Department has committed \$1.15 billion to 4,139 projects since 1988. We found that:

- 61 percent of the funds committed were used to fund 5 percent of the projects (see Exhibit 19.3);
- 55 percent of the funds committed were approved under the Canada-Quebec Economic and Regional Development Agreement;
- 30 percent of the funds committed went to non-commercial undertakings (see Exhibit 19.4); and

- 24 percent of the contributions are repayable.

## Resources

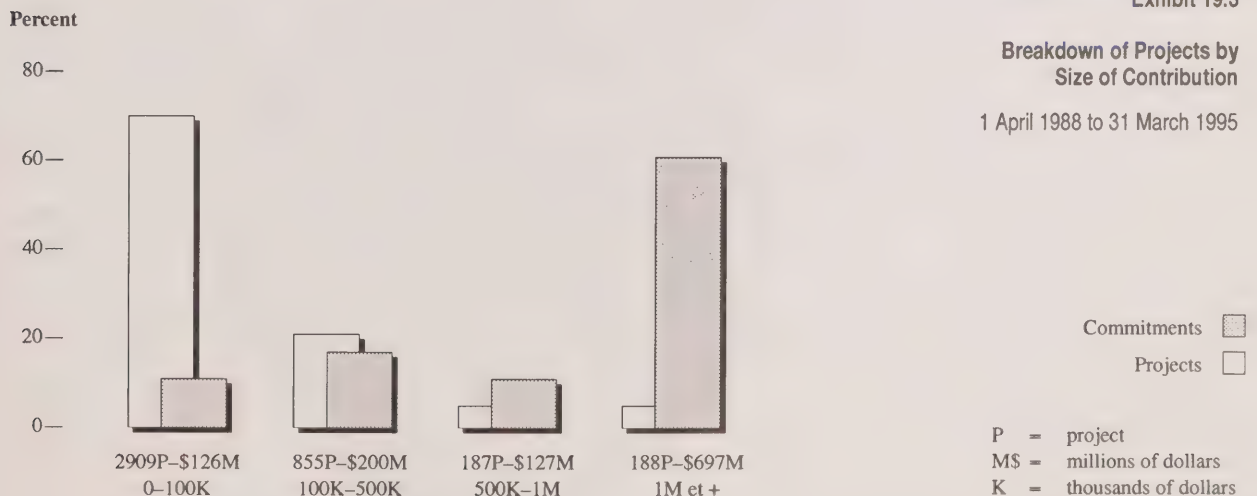
**19.18** Headquarters of the Federal Office of Regional Development – Quebec are located in Montreal. There are 13 regional offices, and an office in Hull that liaises with the federal governmental and political machinery in the National Capital Region.

**19.19** Between 1988 and 1995, the Department had on average 250 employees and an average annual budget of \$200 million, of which \$170 million was allocated to grants and contributions. However, because of cuts announced in the February 1995 federal Budget, the Department will have to cope with significantly reduced budgets and a smaller staff in the future.

## The Department's New Orientation

**19.20** Changes in the economic environment, successive budget cuts, the federal government's new economic development policy, the expiry of the Canada-Quebec Economic and Regional Development Agreement in December

**The Department has favoured the delivery of financial assistance programs as the primary vehicle for fulfilling its mandate.**



Source: Federal Office of Regional Development – Quebec

## A new program direction came into effect on 1 April 1995.

1994 and the end of most of the financial assistance programs on 31 March 1995 are among the factors that have forced the Department to review its intervention strategy in Quebec.

**19.21** In late 1993, the Department initiated an in-depth review of its orientation and its future activities. This exercise resulted in a major reorientation of its strategy and the development of a new program direction, which came into effect on 1 April 1995. This topic is covered in greater detail at the end of the chapter.

## Audit Scope and Objectives

**19.22** Our audit comprised two phases. In the first, we examined certain activities associated with the programs that were in effect between 1 April 1988 and 31 March 1995. Our audit objectives were:

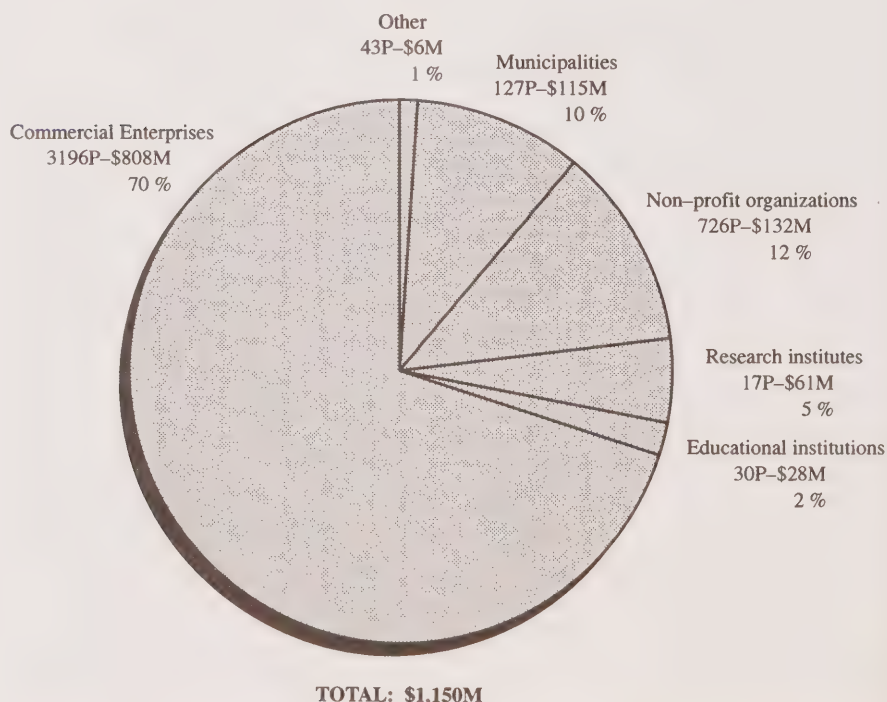
- to determine whether the Department had developed sufficiently precise objectives to guide its activities and enable results to be measured;
- to determine whether the Department had established satisfactory procedures for measuring the results of its activities and reporting them to Parliament;
- to evaluate the process for analyzing applications for financial assistance in order to determine whether approved projects are consistent with the Department's guidelines and objectives; and
- to examine how the Department has played its role as co-ordinator of federal activities in regional development.

**19.23** The second phase of our audit looked at the processes for developing and implementing the new program direction that came into effect on 1 April 1995. Our objective was to determine whether the Department had instituted appropriate management mechanisms to foster

Exhibit 19.4

### Breakdown of Funds Committed by Type of Applicant

1 April 1988 to 31 March 1995



P = project  
M\$ = millions of dollars

Source: Federal Office of Regional  
Development – Quebec

successful implementation of its new activities.

**19.24** In the context of the Department's new orientation, we also sought to determine what lessons the Department could draw from its past experience.

**19.25** The quantitative information in this chapter was obtained from the various government sources cited. However, unless otherwise indicated, we assessed the reasonableness of this information but did not audit it.

## Observations and Recommendations

### Objectives and Programs

#### Operational objectives are needed

**19.26** The legal mandate of FORD-Q is expressed in very broad terms, allowing great flexibility in its choice of orientations and activities.

**19.27** The Department set objectives for each of the programs that were in effect from 1 April 1988 to 31 March 1995. (See examples in Exhibit 19.2.) Although the objectives were all valid, they were not sufficiently precise to enable the Department to guide its activities, make optimal use of its resources and evaluate its results.

**19.28** The Department did not set objectives at a more operational level than the program objectives. Precise, results-oriented operational objectives would have helped establish a clear orientation, ensure the best choice of projects to be funded and facilitate measurement of results.

#### The efficiency of program management

**19.29** The number of FORD-Q financial assistance programs nearly doubled between 1 April 1988 and 31 March 1995, from 15 to 27. Budgets for these various programs ranged from \$500,000 to \$140 million. During this period, the Department's annual budget remained relatively stable.

**19.30** An examination of the funds committed shows that the programs responded to a range of applications and types of applicants (see Exhibit 19.4), and supported projects in a large number of sectors throughout the province.

**19.31** Such a large number of programs raises questions about possible overlap within the Department itself and about the efficiency of program management.

**19.32** For example, according to the Department's database, a total of \$186 million in funding has been committed in the tourism sector since 1 April 1988. These contributions were approved under 15 different programs. Some of the programs focussed exclusively on tourism development, while others were more general in nature. This generates costs not only for the development and implementation of each program but also for its administration.

**19.33** FORD-Q should ensure that its new program framework that came into effect on 1 April 1995:

- includes precise, results-oriented operational objectives; and
- promotes efficiency in program management.

*Department's response: The Department agrees and has already taken this recommendation into consideration in establishing the management framework for its new IDEA-SME Program.*

Specific operational objectives are helpful in providing guidance for activities and evaluating their results.



**Management information, which tends to be operational and financial, provides little information on the results achieved during program delivery.**

## Evaluation of Results

**19.34** The ability to measure and evaluate results depends largely on the establishment of precise objectives and performance indicators when the programs are put in place.

### **Ongoing performance measurement is an essential tool**

**19.35** The Department has developed few relevant, useful indicators for monitoring key aspects of program performance. Management information tends to be operational and financial and includes, in particular, data on the number of applications received and approved, funds committed and available budget balances. These data do not provide information on progress made and trends observed during program delivery, which would make it possible to modify or confirm the direction chosen for programs.

**19.36** The scarcity of data on results may be explained in part by the lack of evaluation frameworks for most of the Department's programs. Although Treasury Board recommends that evaluation frameworks be developed as soon as possible after programs are put in place, FORD-Q developed very few.

**19.37** Developing evaluation frameworks very soon after a program is instituted has many advantages. Among other things, it makes it possible to define the objectives and expected results clearly and to identify performance indicators. It also helps in identifying relevant data that must be collected. These data can then be used for program management and evaluation and for improving accountability.

**19.38** FORD-Q should develop performance indicators as soon as a program is instituted in order to permit

ongoing monitoring of results and to improve program management and accountability.

*Department's response: The Department agrees. An evaluation and performance measurement framework is already being drawn up and will become operational over the next few months.*

### **Program evaluation can be improved**

**19.39** Evaluating programs in the context of regional development is not a simple matter. Funds allocated to regional and economic development are only one factor that can affect the economic situation of a region.

**19.40** Despite the limitations and problems involved, the Department needs to evaluate the results of its activities and measure the impact of its assistance programs in order to determine their strengths, weaknesses and efficiency, and to draw lessons from them. This will also enable the Department to provide better information to Parliament and to the public.

**19.41** The Department has adopted a structure for managing program evaluations. Management has established selection criteria for significant financial assistance programs. The Department has also developed evaluation plans, but they have not been followed. Although these plans were approved by senior management, most of the evaluations scheduled were not conducted because of a lack of funds and a decision to evaluate only programs whose characteristics were similar to those of the new program framework.

**19.42** Since its creation in 1991, FORD-Q has carried out three program evaluations. We examined two of them: one of the Manufacturing Productivity Improvement Program and the other of the Enterprise Development Program,



Industrial Component. Both of these programs are among the largest in terms of the number of projects and the funds committed.

**19.43** Our review revealed that the evaluations carried out were timely, the methodology was appropriate and the observations were relevant and generally reliable. The evaluations dealt with program relevance, value added and effectiveness, among other matters. However, some important issues were not addressed.

**19.44** For example, neither of these two program evaluations linked the attainment of the program's objectives to the attainment of the objectives of the Canada-Quebec agreement under which the programs were carried out, or to the objectives set out in the Department's mandate. The evaluators were therefore unable to determine whether the programs had benefited disadvantaged regions or promoted the creation of sustainable employment and income.

**19.45** Furthermore, while both evaluations compiled a list of possible positive and negative impacts of the programs, certain impacts were not measured. In one case, the Department did not measure any negative impacts such as encouragement of non-viable activities, exceeding the limit of borrowing capacity or displacement of competition. We found no explanation for the choice of impacts that were measured by the Department.

**19.46** The number of impacts selected for review affects the cost of a program evaluation, and the cost must be in relation to the size of the program. Hence, it is obviously impossible to examine every impact. However, a sufficient number of positive and negative impacts must be examined if the evaluation

conclusions are to present a realistic picture.

**19.47** FORD-Q should examine a sufficient number of relevant issues and impacts in a program evaluation to obtain adequate information on program performance.

*Department's response: The new evaluation and performance measurement framework will respond to this concern.*

## Information to Parliament

**19.48** Part III of the Estimates has been, to date, the main instrument used by FORD-Q to report to Parliament on its activities. To assess the quality of the information reported to Parliament, we examined Part III of the Estimates for the years 1993–1994 to 1995–1996, and the testimony from the 1994–1995 Estimates hearings of the Standing Committee on Industry.

**Better information on performance is needed**

**19.49** FORD-Q has made a number of improvements to Part III of the Estimates since 1992. However, it provides little information about the efficiency and effectiveness of its programs.

**19.50** In its Part III, FORD-Q informs the reader about the Department's mandate, its primary activities and actions, and the allocation of its financial resources. This information is very useful since it makes it possible to understand the context in which the Department operates. However, this rather descriptive information is incomplete in the sense that it does not enable Parliament to determine the extent to which the Department has attained its objectives.

**19.51** Apart from the results of the three evaluations of financial assistance programs we have already mentioned, and

Program evaluations were conducted in a timely manner and the observations were relevant and generally reliable. However, some important issues were not addressed.

FORD-Q has made a number of improvements to Part III of the Estimates. However, the information provided does not make it possible to determine the extent to which the Department has attained its objectives.

Departmental management has not specified the scope of the analysis it expects in relation to the size and complexity of projects.

the amount of investment generated by certain programs, the activity measurements presented are generally operational statistics, such as amounts spent or committed and numbers of projects approved.

**19.52** The results of the two program evaluations we examined were not presented in a completely objective manner. The Department emphasized primarily the positive aspects and did not report the evaluators' negative comments, such as the fact that the programs had limited impact and that a large number of projects would have gone ahead without the Department's assistance.

**19.53** With respect to the investment generated by its programs, the information presented by the Department let the readers suppose that the proportion of public funds invested in projects is limited to FORD-Q's contribution, whereas, in many cases, other levels of government have also contributed to the same projects.

#### **Information on jobs does not reflect actual results**

**19.54** Although the Department's mandate stresses the creation of sustainable employment, this is not considered as a key factor during decision making. As a result, updating of statistical data on job creation is not one of the Department's priorities.

**19.55** However, parliamentarians, the media and the general public consider that the number of jobs created is a significant statistic. For the last two years, the Department has been providing information on jobs created and maintained. In presenting its 1994-1995 Estimates to the Standing Committee on Industry, the Department stated that since 1988 its activities had made possible the

creation and maintenance of 56,000 jobs in Quebec.

**19.56** We found that the employment data were incomplete and did not correspond to actual results. Indeed, the data were not always entered in the Department's information system and, when they were, they generally represented the applicants' forecasts at the time of application for financial assistance and had rarely been revised or updated.

**19.57** **FORD-Q should ensure that information reported to Parliament provides sufficient details about the efficiency of operations and the attainment of legislative objectives and the objectives of the programs for which the funds were appropriated.**

*Department's response: As the Auditor General mentions, the Department has already made many improvements to its Part III of the Estimates and will continue to do so. Particular attention will be paid to information on efficiency and effectiveness.*

#### **Program Delivery**

**19.58** As part of our audit, we examined a statistical sample of 68 projects as well as the 16 projects that had received contributions of more than \$4.8 million each. The total value of our sample was \$169 million. The population from which the sample was taken consisted solely of projects authorized under programs approved after 1 April 1988. It comprised 3,326 projects, with total committed funds of \$662 million.

**19.59** We analyzed the documentation in the project files, held discussions with the Department's representatives and met with some of the recipients of contributions.

#### **General observations**

**19.60** Applications for financial assistance must be analyzed against



established criteria, and projects must be monitored during the implementation phase to ensure compliance with the conditions of the agreements. This monitoring should make it possible to determine the extent to which projects have generated the anticipated economic benefits.

**19.61** The program eligibility conditions and the administrative guide specify the basic analytical criteria to be used when reviewing applications for financial assistance. These criteria are: **incrementality; the potential economic benefits for Quebec and Canada; and the commercial and economic viability of the project and the applicant.**

Analyzing applications according to each of these basic criteria and deciding to approve financial assistance requires considerable judgment.

**19.62** The scope of the analysis should reflect the size of the contribution, the type of applicant and the nature of the project. However, departmental management has not specified the scope of the analysis it expects in relation to the size and complexity of projects. The guidelines available to employees are general and apply to all projects without distinction, regardless of their size or nature.

**19.63** We found that applications for financial assistance were not always analyzed against each basic criterion and that, for projects of similar size or type, different employees performed the analysis with varying degrees of thoroughness.

**19.64** Extrapolating our findings to the population we can conclude, with a confidence level of 97.5 percent, that one or more criteria may not have been met in at least 22 percent of approved projects with contributions totalling \$84 million

(14 percent of the value of the target population).

**19.65** We noted that 85 percent of these projects involved contributions of less than \$200,000. In our view, this finding is especially important, since the Department's new program direction focusses primarily on funding projects of this size.

#### **Incrementality is not always demonstrated**

**19.66** Incrementality is generally defined by the Department as the likelihood that without the contribution the project would not be implemented in the same location, with the same scope and on the same timetable.

**19.67** Analyzing an application against the criterion of incrementality is undoubtedly difficult. Since the assistance provided is free, any applicant would find this type of financing attractive. The Department is therefore faced with the difficult task of evaluating the effect of the contribution on the location, scope and timetable of the project.

**19.68** In two program evaluations conducted by the Department, the evaluators found that about 30 percent of the projects would still have been carried out as planned without financial assistance. Our review determined that in the case of projects submitted by non-commercial undertakings, incrementality was fairly obvious. However, in 27 percent of the projects submitted by commercial undertakings, we noted factors that raised questions about the need for government assistance.

**19.69** For example, some contributions were granted although a high proportion of the project costs had been committed before the application was submitted or the Department's decision made. In one case, this proportion was as high as 70

**The Department is faced with the difficult task of evaluating the effect of the contribution on the location, scope and timetable of the project.**

**In 27 percent of the projects submitted by commercial undertakings, certain factors raised questions about the need for government assistance.**

**Projects must generate significant net economic benefits.**

**The criteria used to analyze applications for financial assistance are much more applicable to commercial than non-commercial undertakings.**

percent at the very outset of the analysis of the application.

**19.70** For other projects, review of the documentation shows that the applicant was in a very good financial situation, which normally would have enabled it to obtain private sector financing. We acknowledge that a good financial situation does not necessarily mean that an application for assistance should be rejected, as long as other incentive factors justify the need for assistance.

**19.71** For example, one business was granted a \$90,000 contribution despite the fact that it had paid nearly \$2.5 million in dividends the same year it applied for financial assistance. The only incentive factor documented in the file referred to sharing the financial risk.

**19.72** In the case of applications for financial assistance submitted by subsidiaries of large companies, the argument used to justify financial assistance is that if the contribution is not granted, the project will be implemented outside Canada. The funding provided by the Department is generally used to increase the rate of return on the project to the level required by the parent company. In general, the file documentation did not refer to the applicants' target rate of return.

**Net economic benefits are seldom evaluated**

**19.73** To obtain government assistance, projects must generate significant net

economic benefits for Quebec and Canada.

**19.74** In the tourism sector, the gross economic effects were normally quantified; in other sectors, they were rarely quantified and most often stated in general terms such as improving competitiveness and increasing exports.

**19.75** In addition to identifying the gross economic benefits of a project, the Department must determine whether there are factors that might substantially reduce such benefits.

**19.76** In some cases we found documents that included reservations about market potential and existing competition in the applicable market, which raises the possibility of a negative impact. However, we found no evidence of any analysis indicating that the Department had assessed that impact. (See example in Exhibit 19.5.)

**Profitability and viability are not always thoroughly analyzed**

**19.77** The objective of sustainable employment and income creation can be attained only if there is reasonable assurance that the project will be profitable and that the applicant is, or will be, economically viable.

**19.78** Project officers must review the financial forecasts and basic assumptions and assess the probability that they will be realized. To this end, they must analyze the market, the competition and the prior experience of the applicant's owners and managers, and determine the extent to which its financial situation would enable it to carry out the project successfully.

**19.79** In 11 projects that we examined, we noted that at the time the application was analyzed there were indications that cast doubt on the applicant's financial capacity or the profitability of the project.

**Exhibit 19.5**

**Example of Potential Reduction in Net Economic Benefits**

The recipient operates a business in a highly competitive market subsidized by different levels of government. It is in competition with other companies in the same city and partly in the same niche. The recipient mentioned in its market study that it has competitors and that it might be able to attract some of their customers.



Of the firms involved in the 11 projects, five were forced to shut down before final payment of the contribution.

### **Analytical criteria are not suited to all types of undertakings and projects**

**19.80 Non-commercial undertakings.** Contributions granted to non-commercial undertakings represent 30 percent of total contributions approved since 1 April 1988. These undertakings include municipalities, research institutes affiliated with universities, educational institutions, museums and service companies.

**19.81** FORD-Q is rarely the only organization that helps finance this type of undertaking. While it mainly funds construction of buildings or acquisition of equipment, other levels of government generally contribute to operating costs.

**19.82** The basic criteria used to analyze applications for financial assistance are much more applicable to commercial than non-commercial undertakings. The Department has not developed guidelines for adapting the analysis of applications to the characteristics of non-commercial undertakings.

**19.83** For example, the Department considers that the viability of non-commercial undertakings is based either on the ability of the undertaking to become self-financing within a given period of time or on the receipt of recurring grants from various levels of government.

**19.84** We found that the proportion of income anticipated from the private sector tends to be significantly overestimated and that, accordingly, the undertaking's ability to become self-financing within a reasonable period is overestimated. Two examples are provided in Exhibit 19.6.

**19.85** When organizations are highly dependent on government funding for their operations, FORD-Q should investigate their potential for obtaining recurring funding over the medium term. Because of the very limited resources at all levels of government, a major reduction in the funding allocated to some of these organizations is certainly possible.

**19.86** Some of the Department's employees have substantial experience in the financing of non-commercial undertakings. The Department could draw on this expertise to identify lessons and specify the basic criteria and factors to be considered when analyzing applications, thereby improving the quality of its funding decisions.

**19.87 Study projects.** Contributions for conducting studies such as feasibility and marketing studies currently represent 3 percent of funds committed, although studies account for 19 percent of approved projects. However, the funding of proposed studies is likely to become more significant under the new program direction. The average contribution awarded to date for this type of project is \$40,000.

**19.88** We found that the quality of analysis of these applications varied significantly. The Department needs to

The Department could use its expertise to specify the analytical criteria for applications that would take into account the different types of undertakings and projects and thereby improve its funding decisions.

An applicant submitted financial projections indicating expected participation by the private sector in the form of sponsorships totalling \$4 million. It anticipated receiving approximately 40 percent of this amount in its first year of operation. The actual results show that it received only 7 percent.

The operating budgets submitted by an applicant along with its application projected that \$280,000 would be obtained from the private sector for each of the first three complete operating periods. The actual results for the first two periods were approximately \$10,000 and \$5,000 respectively.

#### **Exhibit 19.6**

#### **Examples of Overestimation of Financing Expected from the Private Sector**

establish what it considers a reasonable minimum analysis.

**19.89** Although these contributions are smaller than those for capital projects, it is still necessary to analyze the financial and human capacities of the undertaking in order to ensure that the applicant will be able to act on positive conclusions of a study. This will provide the Department with reasonable assurance that the contribution will result in economic benefits.

**19.90** Of the nine studies with positive conclusions, we noted that three applicants did not have the financial capacity when the application was analyzed to implement the project that normally would follow the study. So far, the three projects have not been carried out.

#### **Project results are not known**

**19.91** Projects are monitored mainly by auditing claims for payment and visiting the recipient to observe how the project is advancing. This activity is generally well carried out.

**19.92** Our discussions with departmental officers revealed that they were aware of progress toward the completion of projects. However, this information was not recorded clearly in the files and was rarely entered in the Department's information system. The economic benefits achieved were never compared or analyzed in relation to the initial objectives, either during project implementation or at the time of the final payment.

**19.93** Since FORD-Q does not know the results achieved for each project, its ability to identify the results of programs is reduced, as is its ability to intervene in the short term when programs are under way.

**19.94** To improve program delivery and ensure that approved contributions allow its objectives to be attained, the Department should:

- specify its criteria for analyzing applications and adapt them to the size and nature of the projects and the type of applicant;
- ensure that documentation appropriately reflects all the major factors supporting decisions to approve assistance; and
- record information on the economic benefits resulting from projects and analyze these benefits by comparing them with the initial objectives.

*Department's response: Under former FORD-Q programs and in the context of federal-provincial sub-agreements on regional development, the Department's project appraisals took into account several factors including market opportunities, financial aspects, sectoral advice and economic impact.*

*Under the new IDEA-SME program, the evaluation and performance measurement framework being drawn up will include, among others, economic impact performance indicators for projects supported by the Department. As well, the management information system is being revamped in order to allow for the gathering of all the information required to measure along these parameters. This new evaluation framework and the revised information system will be up and running by early 1996. The Department will draw up simplified guidelines to support the work of its officers. It will ensure that its expectations regarding the quality and scope of work and documentation regarding key decisions are clearly communicated.*

#### **Efficiency of program delivery**

**19.95** Although the target time for processing an application is 90 days, it

takes on average 105 days. Processing time is defined here as the number of days between the time a formal application is received and the time the Department makes a decision.

**19.96** We found no internal report explaining the discrepancy between the actual processing time and the stated target. In an internal audit report submitted in December 1994, the time needed by an applicant to provide all the information required for the Department to make a decision was estimated at about 30 days. However, the internal auditors were unable to undertake a more detailed analysis because information that would have enabled them to identify all the actions taken and the dates of those actions was not in the files.

**19.97** As part of its new program direction, the Department has set an official service standard. In view of the type of activity it anticipates, it currently estimates that 30 days would be a reasonable standard.

**19.98** **FORD-Q should ensure that it collects sufficient information to be in a position to analyze the discrepancy between actual processing time and the stated standard and to take any necessary action, particularly reviewing the service standard.**

*Department's response: FORD-Q has already begun to establish service standards for its clientele. Processing time is part of the quality service that we would like to offer our clients. This exercise is also intended to simplify decision-making procedures for projects involving an application for financial assistance. Implementation of the service standards program, combined with the revamping of our information system, will enable us to evaluate performance in terms of processing-time standards and take any necessary corrective measures.*

### **The Department should determine its recovery rate**

**19.99** Since 1 April 1988, 24 percent of authorized contributions have been repayable contributions. To date, the Department has not stipulated what recovery rate it considers desirable.

**19.100** In April 1990, Treasury Board issued a policy on repayment of financial assistance. The Department subsequently applied this policy, using the exemptions allowed. For example, contributions of \$100,000 or less can be exempted from the requirement.

**19.101** In October 1994, the Department decided that all contributions above \$25,000 granted to commercial undertakings would be repayable. Budgetary constraints and the possibility of retaining the amounts recovered after 1 April 1996 had prompted the Department to review its policy in this regard.

**19.102** In view of the potential significance of repayable contributions, it would be in the Department's interest to determine the overall level of risk it is prepared to assume. In the case of repayable contributions, as in the case of loans, this risk can be expressed as an acceptable loss rate or desirable recovery rate.

**19.103** We do not expect that FORD-Q should take no risks, since this would be incompatible with a regional development mandate. Rather, our view is that it should determine the recovery rate it considers desirable to provide guidance for decision making while continuing to assist small and medium-sized businesses.

**19.104** **The Department should determine the recovery rate it considers desirable and guide its funding decisions accordingly.**



*Department's response: Since April 1995, the Department has implemented new programming that includes a decision to lower the repayment threshold for repayable contributions from \$100,000 to \$25,000. It has also set objectives for recovery of its contributions.*

*It should be noted that the Department manages a number of important programs to which the concept of repayable contributions does not apply, namely the Canada-Quebec Infrastructure Agreement, and the Community Futures Program.*

**We acknowledge the Department's efforts to date to establish federal co-ordination mechanisms.**

## **Interdepartmental Co-ordination**

**19.105** A mandate such as that of the Federal Office of Regional Development-Quebec cannot be carried out in isolation. It requires the concerted action of all federal, provincial and community stakeholders. In its new Strategic Action Plan, the Department writes: "[Translation] Only a close, effective and ongoing partnership between all government and private stakeholders can create the necessary synergy to adequately meet the challenge of sustained economic growth and job creation in all regions of Quebec." Our review centered on the issue of federal partnership. According to an internal study by FORD-Q, there are 19 other federal departments and agencies in Quebec, eight of which are active in the economic area. The activities of these organizations all influence Quebec's economic development to varying degrees.

### **A partnership rethought**

**19.106** In its evaluation of the federal partnership from 1991 to 1994, FORD-Q notes that the partnership was primarily operational, bilateral, financial and limited to a few large departments. FORD-Q did not see itself as a strategic participant in development policies. In

this area, the Department intervened somewhat sporadically and often after the policies and priorities of the other federal departments had been decided, leaving it unable to exert any significant influence on those policies and priorities.

**19.107** A number of factors will have a definite impact on federal regional development activities and on the pattern of interdepartmental relations. Among them are the termination of the Canada-Quebec Economic and Regional Development Agreement; the elimination in 1995 of the reserve for regional development in Quebec; the significant reduction in the budgets of federal departments and agencies; and the major reorientation of FORD-Q. Aware that all these changes have an impact on its ability to carry out its mandate of promoting economic development, the Department developed a more articulated strategy for federal partnership.

**19.108** As of 31 March 1995, five memoranda of understanding on specific sectors of co-operation had been signed and others were being negotiated. For example, one such memorandum signed with the National Research Council covers exchanges of information in the field of innovation. Another, signed with Foreign Affairs and International Trade Canada and Industry Canada, covers the delivery of a financial assistance program for exports in all regions of Quebec.

**19.109** In June 1994, the Department also established a multi-tiered, multilateral co-ordination structure to promote discussion and exchange of information at policy and operational levels. A number of task forces involving representatives of some dozen federal departments and agencies have been created to examine various regional issues identified by stakeholders. As of 31 March 1995, the frequency of meetings, the work



performed and the progress made varied with the particular committee and issue.

**19.110** We acknowledge the Department's efforts to date to establish federal co-ordination mechanisms. It is still too early to determine whether these new mechanisms will promote effective co-operation and consultation. The challenge for the Federal Office of Regional Development – Quebec over the coming years will be to encourage the departments involved to work together toward greater convergence and combination of efforts. FORD-Q has no legal authority over the other federal organizations in Quebec. However, it must seek their participation in formulating a comprehensive approach to regional development.

## A New Orientation

**19.111** Changes in its internal and external environment have prompted the Federal Office of Regional Development – Quebec to undertake a major reorientation of its intervention strategy and to develop a new program framework. This framework was approved by Treasury Board on 30 March 1995 and took effect on 1 April 1995.

**19.112** Our audit dealt with the process of developing and implementing the new program framework for customer services and activities.

### Developing the program framework

**19.113 A sound process.** The new program framework is the product of a strategic review process involving senior management, managers and staff of FORD-Q over a period of about two years. The approach followed was well structured. Roles and responsibilities were clearly established and appropriate

mechanisms were instituted to ensure co-ordination and supervision of activities.

**19.114** We found that the Department took into account in a reasonable manner the available information on its previous activities and its internal and external environment. It considered the general political and economic climate, the government's policies and priorities and the needs of small and medium-sized businesses (SME), among other things.

**19.115 The resulting product.** Under its new program direction, FORD-Q will become a federal service centre for small and medium-sized businesses, geared to the distribution of information, project development, partnership and access to financing along three major lines: (1) innovation, research and development, and design; (2) market development; and (3) entrepreneurship and the business climate.

**19.116** This new orientation has resulted in the development of a single program that is intended to be flexible and tailored to the realities and needs of the regions. This new program, IDEA-SME (Innovation – Development of markets – Export trade – Assistance to entrepreneurship), replaces all previous programs.

**19.117** On 31 March 1995, uncommitted funds from all financial assistance programs still in effect as of that date were transferred to the new program. Over the next two years, a major share of the available budgets will go to the payment of commitments made under previous programs. The budget available for financial assistance under the IDEA-SME program will be approximately \$18 million in 1995–1996.

**19.118** This reorientation entails some major changes in the way things are viewed and done. As described in

The challenge for the Federal Office of Regional Development – Quebec over the coming years will be to encourage the departments involved to work together toward greater convergence and combination of efforts.

**The Department's reorientation entails some major changes in the way things are viewed and done.**

Exhibit 19.7, these changes affect, among other things, the Department's product, its role, its approach, its management framework and the skills of its staff.

**Implementing the new program entails major challenges**

**19.119** Such a major change in direction entails some significant challenges that will have to be met. When we concluded our audit in late March 1995, the

Department had identified and begun to meet a number of these challenges. However, considerable work remained to be done to make the new program direction and framework fully operational and to be able to provide the desired quality of service and obtain the anticipated results. Among other things:

- The Department will have to specify the proposed objectives, activities and client services that are defined in a general way in the new program

Exhibit 19.7

Comparative Table of  
FORD-Q Orientations

Characteristics	Old Program (program agency)	New Program (service agency)
Role of Entity	<ul style="list-style-type: none"> <li>• Source of federal funds via financial assistance programs</li> </ul>	<ul style="list-style-type: none"> <li>• Federal service centre for SMEs – Gateway for federal services to SMEs</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Financial assistance programs primarily for capital projects (<math>\pm 40</math> over the review period)</li> </ul>	<ul style="list-style-type: none"> <li>• Single IDEA-SME program Distribution of information, orientation, partnership and access to financing – "soft costs"</li> </ul>
Approach	<ul style="list-style-type: none"> <li>• Reactive (responds to requests for financial assistance The SME: an applicant (for assistance)</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive</li> <li>• The SME: a client, a partner</li> </ul>
Attraction Factor	<ul style="list-style-type: none"> <li>• Financial assistance</li> </ul>	<ul style="list-style-type: none"> <li>• The relevance, quality and accessibility of services</li> <li>• Professional know-how</li> </ul>
Role of Staff	<ul style="list-style-type: none"> <li>• Specialists in analyzing and processing applications for financial assistance according to pre-established procedures and guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Developers, facilitators, catalysts and escorts for SMEs</li> <li>• Versatility of activities</li> </ul>
Management Framework	<ul style="list-style-type: none"> <li>• Vertically centralized decision-making structure</li> <li>• Organizational strategy: responsibility in headquarters and implementation locally</li> <li>• Operational planning: assumed passively by programs</li> </ul>	<ul style="list-style-type: none"> <li>• More decentralized structure, accountability in the operational centres</li> <li>• Responsibility partly in headquarters, partly emerging from the operational centres</li> <li>• Assumed actively by corporate and regional action plans and management contracts based on these action plans</li> </ul>

Source: Excerpt from an internal document of the Federal Office of Regional Development-Quebec

framework, and communicate them to staff.

- The Department will have to complete the design of the various work tools and instruments required for the delivery of services, identify all data resource needs and obtain the necessary technological infrastructures.
- The departmental culture is currently oriented toward reactive processing of applications for financial assistance in accordance with standardized terms, conditions and methods. It will have to be modified to enhance proactive delivery of quality services adapted to clients' needs and to increase accountability of managers and staff for achievement of anticipated results.

- The key to success of the new programming lies with the staff of FORD-Q. The delivery of the new services will, in many cases, require new skills that must be developed or acquired. The Department will therefore have to identify its training needs.

- Mechanisms and information systems to plan, direct and supervise activities will have to be established. Such mechanisms as an evaluation framework and performance indicators will have to be developed to permit assessment of the quality of services provided and of the extent to which the Department has achieved the anticipated results of its new program direction and its legislative objectives.

**19.120** In our opinion, not all the management mechanisms necessary to ensure that the remaining work is completed efficiently and within a reasonable time had been adopted as of 31 March 1995. The existing mechanisms at the time of our audit were less thorough than those used to develop the new program direction and framework. For example, as of 31 March 1995:

- The Department had not established an overall plan with precise deadlines for completion of all the work.
- The task force action plans were incomplete. Some had no details on the work to be done, while others had no timetable.
- Co-ordination and follow-up of progress on the action plans was not being carried out regularly or in a structured way. Those responsible for implementation were not required to account periodically and in a formal way for the progress of the work.
- The roles and responsibilities of some participants in carrying out the work were not clearly defined, particularly regarding the identification of data resource needs.

**19.121** To date, the Department has devoted considerable efforts to developing the new program framework and having it approved for implementation on 1 April 1995. The Department anticipates that 1995–1996 will be a transitional period between the old and the new program direction.

**19.122** In view of the amount and complexity of the work that remains to be done, the implementation phase will require a sustained effort by the Department's management and staff to ensure the relevance and quality of services, client satisfaction and the success of the new program direction.

**19.123** To ensure successful implementation of the new program, the Department should:

- prepare an overall plan and detailed action plans with timetables, and implement mechanisms for monitoring progress against these plans;
- clearly define the roles and responsibilities for co-ordination, implementation and monitoring of the work.

**Successful implementation of the new program will require a sustained effort by the management and staff of the Department.**



*Department's response: In April 1995, when implementation of the new IDEA-SME program came into effect, FORD-Q began to prepare the mechanisms and information systems required to plan, direct and monitor activities resulting from this new program. As part of this exercise, action plans were prepared by each of the regional offices. These action plans include IDEA-SME objectives for 1995–1996, and will be subject to periodic evaluation during the year.*

*As mentioned by the Auditor General, the audit was completed on March 31, 1995. Since then, a global plan for program implementation has been established with precise deadlines for the accomplishment of work.*

*Over and above that, FORD-Q has established working groups to prepare proposals to ensure implementation of the IDEA-SME program, focussing on four areas of concern: management systems, management information systems, quality management and programming tools. Each working group has prepared an action plan. These plans are followed up and their progress monitored on a regular and structured basis by a co-ordinating committee, which will report on the results of the working groups to an Operations Committee made up of representatives of each FORD-Q directorate.*

## Conclusion

**19.124** The Federal Office of Regional Development – Quebec is at a major

turning point in its young existence. The Department has undertaken a major reorientation of its activities, with greater focus on small and medium-sized businesses, at a time when it is dealing with significant reductions in its resources.

**19.125** The 1995–1996 fiscal year will be a transitional period crucial to the successful implementation of the new program direction.

**19.126** In this context, the Department should draw on the experience of its employees and learn from its previous activities in order to develop a more results-oriented management framework.

**19.127** From the outset, the Department will have to set specific objectives, develop performance indicators and implement information systems for collecting data. Regular information on the results and efficiency of the Department's activities are necessary to provide better guidance of actions and direction for employees, to evaluate performance and to improve accountability to Parliament.

**19.128** Finally, the Department will have to provide its employees with directives that will ensure more consistent quality of analysis. This analysis must be sufficient to ensure that the projects selected will help the Department achieve its regional development objectives, at a reasonable cost.



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# Chapter 20

Western Economic  
Diversification Canada

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*



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# Western Economic Diversification Canada

*Assistant Auditor General: Don Young*

*Responsible Auditor: Roger Simpson*

## Main Points

- 20.1** Western Economic Diversification Canada (WD) has not established specific, measurable objectives for its programs. This greatly reduces its ability to determine and assess results and to account for them.
- 20.2** To assess Western Diversification Program (WDP) applications, the Department uses a diversification test that lists criteria for both eligible and ineligible projects. It also considers project viability, the possible impact of the project on competitors within Canada, and the financial need of applicants. The Department's assessment of project viability and impact on competitors is reasonable, given the difficulties involved.
- 20.3** The WDP was designed to fund projects that would not proceed without financial assistance. However, the Department defines need more broadly than financial need alone. As a result, WDP assistance has been paid to recipients who have untapped cash or borrowing capacity.
- 20.4** The Department has been innovative in making 73 percent of its financial assistance repayable. It has had to address issues such as trade-offs between helping firms and collecting repayment, whether or not to take security, and how aggressively to pursue collections. Other government agencies can learn from WD's operational experiences as they move toward increased repayability.
- 20.5** The WDP was designed to top up required project financing after applicants access other government funding. A significant number of Program recipients (54 percent of our audit sample) received funding for the same project from another federal, provincial or municipal government agency.
- 20.6** For the 101 WDP projects we examined, we identified 185 specific project objectives. We found that one third of the projects achieved their objectives; one third did not; and it is too early to tell about the remainder. Knowing whether individual projects met their objectives is a necessary but only partial means of gauging Program results as a whole. Whether it is a good indicator depends largely on whether project objectives are consistent with those of the WDP.
- 20.7** The Department reports impressive program results to Parliament even though efforts to evaluate its programs have been limited. Of 14 evaluation-type studies, 10 relate to the WDP. Together the 10 provide only limited coverage and limited substantive evaluation of the Program. We found significant problems with the indicators used to report results, and an absence of important qualifiers. The use of simple indicators may draw attention away from the fact that more meaningful program evaluation is absent.





## Introduction

**20.8** In June 1988, the *Western Economic Diversification Act* established the Department of Western Economic Diversification (WD), with its main activities centered around the Western Diversification Program (WDP). Since its inception, the Department has been responsible for a number of programs.

**20.9** Before the Department was established, the Department of Regional Industrial Expansion had delivered national programs, most of whose western components it transferred to WD.

**20.10** The *Western Economic Diversification Act* empowers the Department “to promote the development and diversification of the economy of Western Canada and to advance the interests of Western Canada in national economic policy, program and project development and implementation.”

**20.11** The Department has a range of duties and powers. Major activities at the time of our audit included:

- providing financial contributions to businesses and industry groups in Western Canada under the Western Diversification Program;
- co-ordinating the economic development activities of the federal government and other stakeholders in Western Canada;
- administering federal contributions to provincial governments for Canada’s Infrastructure Works Program;
- analyzing economic matters from a Western Canadian perspective, both to manage its own activities and to advocate the West’s interests in federal economic policy development;

- advocating the West’s interests in federal procurement of goods and services; and

- providing, on an ad hoc basis, support of government activities in Western Canada, such as military base closures.

**20.12** Subsequent to completion of our audit work but before this report was finalized, the government announced significant changes to the Department’s activities. Highlights include:

- elimination of direct financial contributions to individual businesses. Contributions to not-for-profit trade and industry associations to provide broad industry benefits will continue. WD will still fund projects already approved and will collect repayments, and it expects that future budgets will allow it to respond collections.
- providing financial assistance to targeted industries through “Western Investment Funds” in partnership with financial institutions. Examples include agriculture biotechnology, “value added” agriculture processing, tourism marketing, and commercialization of research and development.
- assuming full responsibility for the federal share of Canadian Business Service Centres in the West, and taking over responsibility for Community Futures from Human Resource Development Canada.

**20.13** Exhibit 20.1 illustrates trends in the Department’s expenditures over time. Its administration costs are about \$30 million annually, including \$20 million for payroll and benefits.

**20.14** Between 1987 and 31 March 1995, the Department had approved \$901 million in WDP funding, including \$217 million not yet paid. The average project approval is \$251,000. Payments will continue until 1999–2000.

**Western Economic Diversification Canada (WD) continues to change.**

**WD is committed to make future payments for previously approved projects.**

**Our audit covered the Western Diversification Program, procurement advocacy, measurement and reporting of results, and roles of headquarters and the Ottawa office.**

**20.15** The Program provides repayable, non-repayable, and conditionally repayable assistance (Exhibit 20.2). Conditional repayments become due when a client has fulfilled certain conditions, typically achieving an agreed level of sales. The Program provides two types of assistance to applicants:

- regular assistance (mainly to individual businesses); and
- industry-wide assistance (or systemic funding) to industry and not-for-profit groups.

**20.16** The Department also funds five major initiatives with total approvals of \$257 million (Low Sulphur Coal, National Agriculture-Biotechnology, Salmonid Enhancement, Soil Conservation Initiatives and Canada-British Columbia South Moresby Agreement). All or part of the last three are administered by other departments.

## Audit Scope and Approach

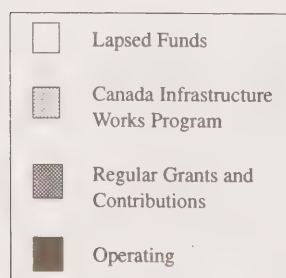
**20.17** We audited the Western Diversification Program (WDP), measurement and reporting of results for the Program and procurement advocacy, and the roles of the Department's offices. We did not audit the programs transferred from the Department of Regional Industrial Expansion, co-ordination, infrastructure spending, or recent program changes announced in 1995.

**20.18** Our audit objectives were:

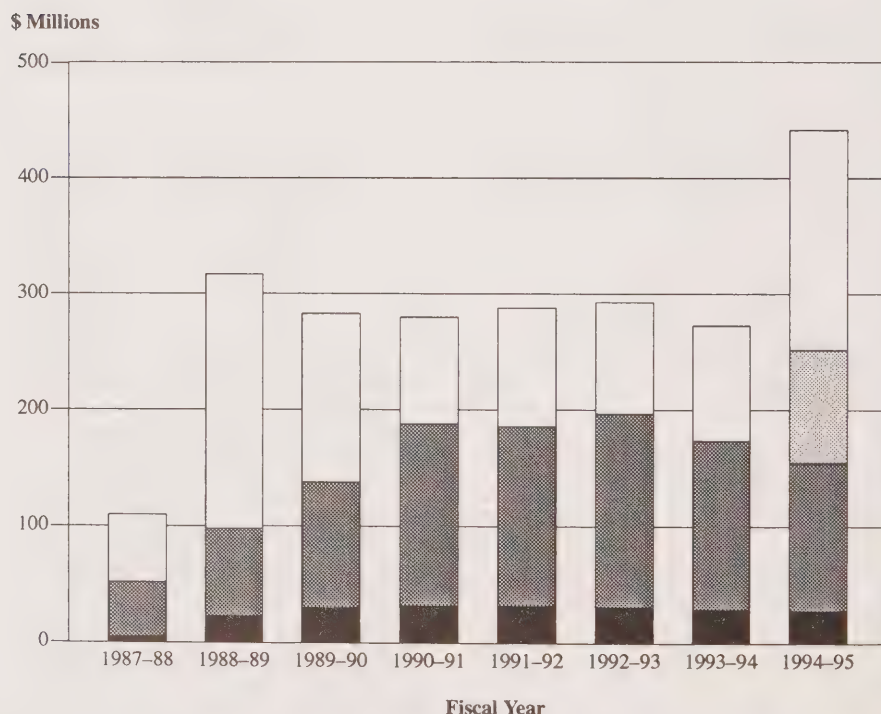
- to determine whether the Department's objectives were sufficiently specific to guide its actions and allow results to be measured and evaluated;
- to assess the Department's project assessment and approval process;
- to assess the Department's approach to repayable contributions;
- to determine whether the Department measures and reports the results of its programs; and

**Exhibit 20.1**

**Western Diversification Funds Available for Use and Expenditures by Fiscal Year**



Each column shows total funds available for use.



Source: Public Accounts of Canada

- to review the roles of headquarters and the Ottawa office.

**20.19** The Department had received 13,306 requests for assistance and at 31 March 1995 had approved funding for 3,586 of them. We audited a sample of 101 approved cases. We selected our sample to allow us to project our findings to all cases approved under the Program.

**20.20 Quantitative information.** The quantitative information in this chapter is drawn from the government sources indicated in the text. Unless otherwise indicated, however, this information has been checked for reasonableness but has not been audited.

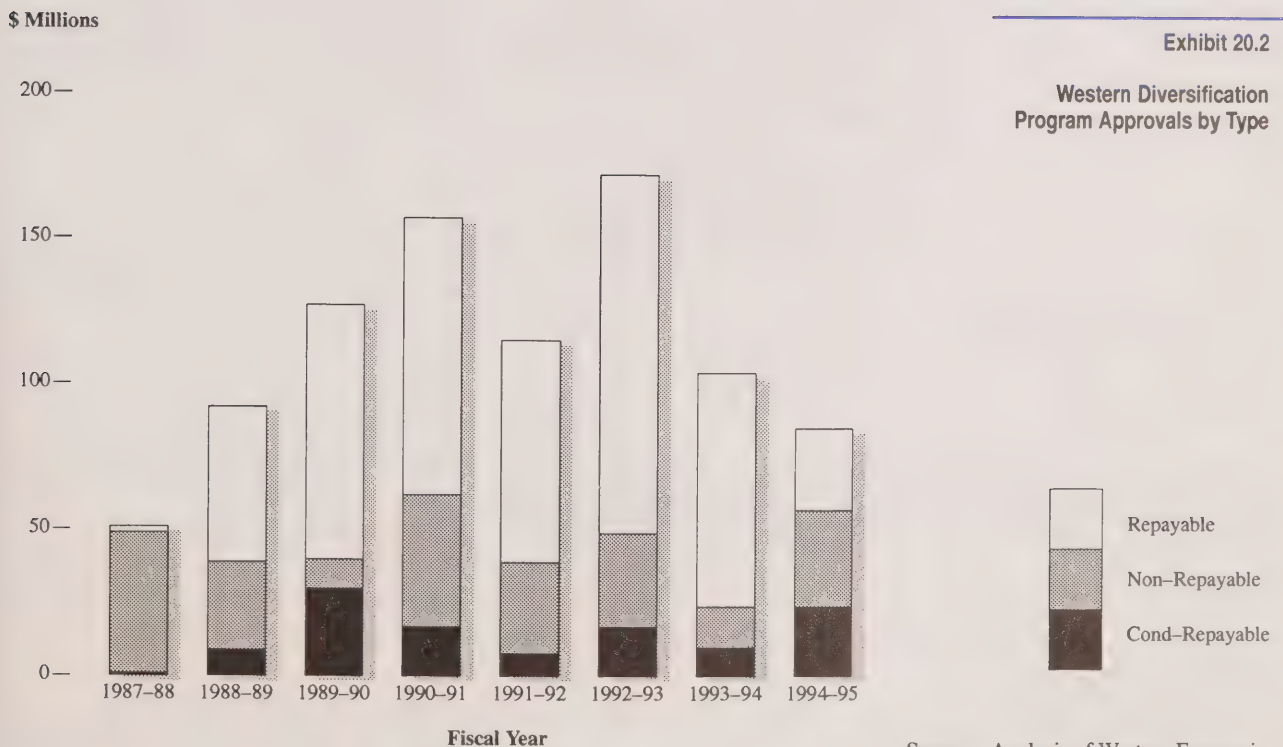
## Observations and Recommendations

### Assessing Applications under the Western Diversification Program

**20.21** We audited the assessment of applications. We expected to find that the Department had efficient, timely, and cost-effective processes to assess applications, and a system to monitor its performance.

“WD’s clients like the Department’s non-bureaucratic approach...”

Source: Department’s 1992 *Five Year Report to Western Canadian Business*



Source: Analysis of Western Economic Diversification Canada’s database



**A high proportion of assistance went to senior levels for approval.**

**20.22** The Department avoids formal applications. Instead, it encourages clients to approach it less rigidly and to work with experienced analysts to develop and analyze the business case. Once an application is in the system, the Department's internal process includes a case analysis and discussion in peer and management groups to benefit from collective wisdom and experience. This is innovative and allows a variety of experienced people to provide input to the decision process, raise challenges and identify further information needs. In the next section we comment on the time this process takes.

**Service targets have been implemented**

**20.23** In response to a Treasury Board initiative, in 1994 WD introduced six delivery targets, two of which address the processing of applications. The Department has tracked its performance against these six targets since June 1994. Exhibit 20.3 illustrates these targets and shows achievement rates. We did not audit these data, or how the standards were established.

**20.24** We surveyed seven venture capital companies and found that they took an average of about 80 days to

approve an application. The time taken by WD for decision making is comparable to these companies. For example, based on information in its database, the average time required for a decision involving less than \$500,000 was about 60 days compared with its standard of 30 days, while the average time for a decision involving over \$500,000 was 57 days compared with its standard of 60 days.

**20.25** The Department's two service targets related to approvals focus on the time required to decide within the Department whether to approve or reject a project.

**20.26** In our view, once a project is approved, equally important is the time taken to advance the application from initial contact to a letter of offer, which becomes a contract between WD and the client. Information in the Department's database indicates that the average time from contact to letter of offer is 153 days. Exhibit 20.4 illustrates for each year the number of cases approved and the average times taken.

**20.27** The Department's approval processes have to meet the government's test of fiscal prudence. Formal sign-off requires a large number of signatures. In our sample this averaged seven. In addition, over time the proportion of assistance going to senior officials for approval has generally increased. For example, according to information in WD's database, the proportion of assistance (in dollars) going to the Minister for approval has varied from a low of about 60 percent in 1988-89 to virtually 100 percent in 1994-95.

**20.28** Exhibit 20.5 illustrates the process used by WD to assess and process applications.

Exhibit 20.3

**Six Service Targets**

Target	Achievement Rate (June 1994 to March 1995)
Response to initial application in four days	96%
Final decision in 30 days (projects under \$500,000)	25%
Final decision in 60 days (projects over \$500,000)	63%
Claims paid within 30 days	96%
Amendments processed within 30 days	80%
Seven days advance notice if target date cannot be met	58%

Source: Western Economic Diversification Canada



### Goals and objectives need to be more specific

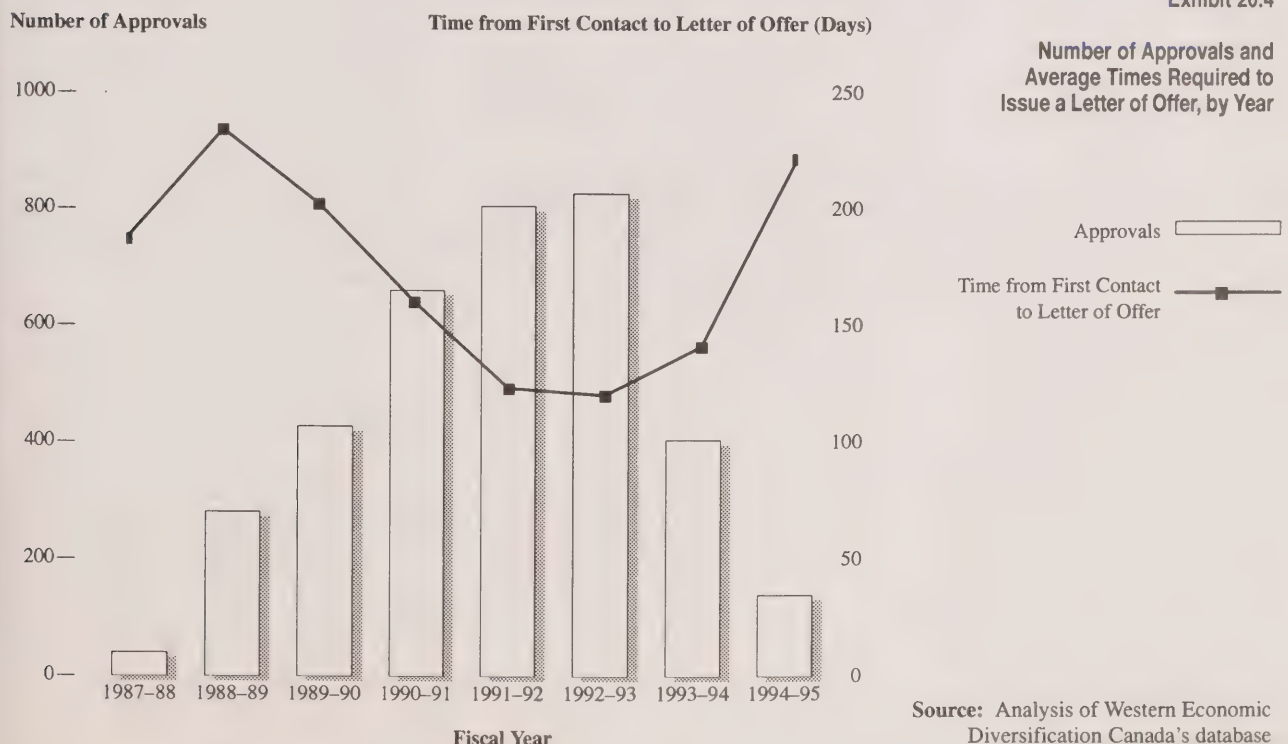
**20.29** The *Western Economic Diversification Act* gives WD broad powers to develop and diversify the Western economy, although it has put most of its efforts to date into diversification. A broad mandate requires more precise elaboration to fine-tune the Program and assess results.

**20.30** Optimal program design, effective planning and subsequent measurement of results require well-defined operational objectives. The Department has not developed these specific objectives. The absence of specific objectives and, where appropriate, targets has serious implications both for program operation and results measurement.

**20.31** For future operations and results measurement, the Department should develop operational objectives and, where appropriate, clear target expectations for all of its activities.

*Department's response:* The Department agrees with this recommendation. Since the fall of 1993, WD has adopted a dramatically different approach to meet its mandate. In keeping with the government's overall objective to reduce subsidies to business, WD no longer provides direct, repayable contributions to individual businesses. WD will become a service delivery institution to assist small and medium-sized enterprises (SMEs) access to all federal government services, to assist SMEs to access capital and to expand our role as advisors to small business — a role built on information and business expertise. We will integrate our efforts with the Canada Business Service Centres, the Community Futures Development Corporations, the Women's

Lack of specific objectives hinders program design, effective planning and results measurement.



**The Program sets out to reduce “boom and bust” cycles in the West.**

*Enterprise Centres and other government departments and agencies, to create seamless service to small and medium-sized businesses in Western Canada. Our role in financing these businesses will be as a catalyst for change in private sector financial institutions, and in assisting small businesses’ access to private sector sources of capital. At the same time, we will continue to invest in strategic industry sectors, creating new public-private partnerships to address pan-Western economic development changes and opportunities. We will retain our role in advocating on behalf of Western business and co-ordinating federal economic development initiatives in Western Canada, and these activities will complement our efforts to develop an integrated approach to small business service delivery.*

*The design and implementation of client service measures and feedback systems, together with operational objectives and evaluation frameworks, are an integral part of this program re-engineering process.*

**Project assessment**

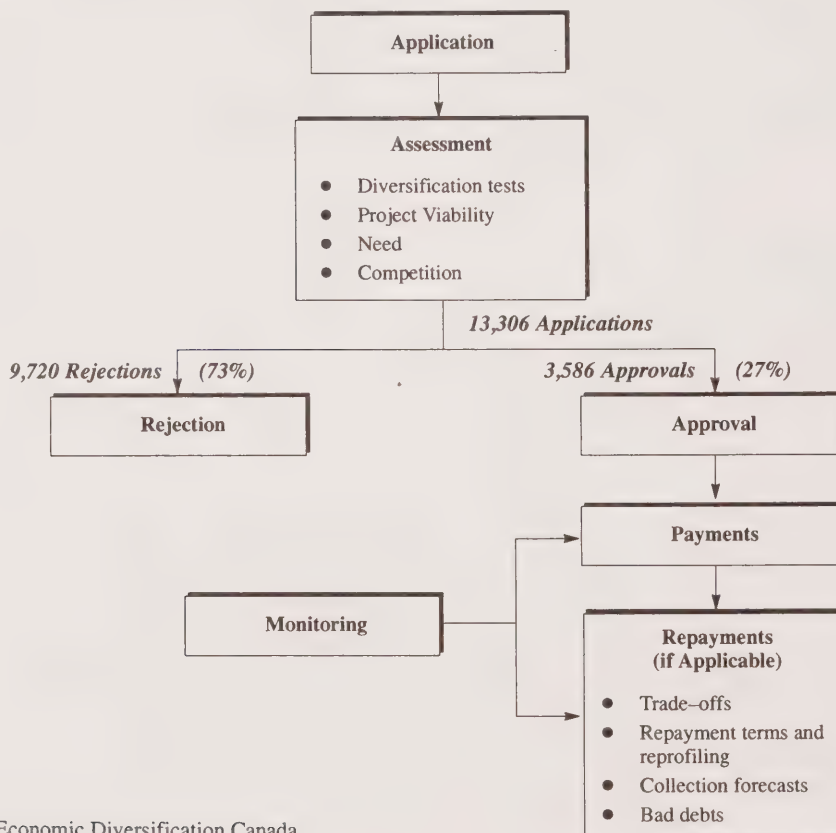
**20.32** The Department assesses applications based on the diversification test, viability, the project’s need for assistance, and its potential impact on competition.

**20.33** The Department approves a wide variety of projects using the basic diversification test. While the Program is designed for economic diversification, there is a wide variety among approved projects (see Exhibit 20.6).

**Exhibit 20.5**

**Overview of Western Diversification Program Processing**

*Numerical data are from August 1987 to 31 March 1995*



Source : Statistics from Western Economic Diversification Canada

**20.34** The WDP has funded projects in many economic sectors (see Exhibit 20.7). The Department approved a wide range of individual projects under the WDP, for example:

- dormitories and a performing arts centre in an international peace garden;
- an ecological attraction at a zoo;
- two IMAX theatres;
- dinosaur digs in Alberta, Arctic Canada and China, with exhibition and marketing of the results;
- buying a ship from the Department of National Defence to sink as a scuba diving site;
- building an engineering research facility, which is now known internationally; and
- three projects by a company that manufactures personal computers.

**20.35 Assessment of project viability is satisfactory.** By design, the WDP assists projects that are new, innovative — and risky. In our audit sample, we examined whether the Department had made appropriate assessments of the projects' financial viability before approval. We concluded that it does a satisfactory job, even though later events can change the results.

**20.36 Need for assistance is not always clear.** The WDP is meant to top up the total project funding, not to replace financing from other sources. The project must have equity from the applicant and may have financing from banks, venture capital or other government assistance. The Department's criteria state that it should not pay program assistance unless there would be a financial gap without it, and the project would not otherwise proceed in the proposed location, scope or time frame. If it is deemed that a project

could proceed in the absence of WDP support, the Department will not offer assistance. Clearly, this puts the onus on the Department to determine that assistance is essential to the project. This is not always an easy task. Perhaps the only true proof of client need would be if the Department did not provide assistance and the project did not go ahead.

**20.37** In our audit sample, we examined whether WD had appropriately considered the availability of other financing options, including commercial financing. We reviewed the financial information obtained and analyzed by WD prior to project approval. We expected to find conclusions based on reasonable evidence that commercial financing would not have been available.

**20.38** We obtained the assistance and expertise of a former senior banker. We examined whether commercial lenders might have been interested in providing financing to the projects, thereby reducing or eliminating the need for departmental

**The Program attempts to help projects proceed that could not without WDP funding.**

Exhibit 20.6

Diversification Test

Eligible Projects	Ineligible Projects
<p>An eligible project must meet at least one of the following diversification criteria. It must:</p> <ul style="list-style-type: none"> <li>• introduce a new product or service to the Western economy</li> <li>• develop a new export market for a Western Canadian product or service</li> <li>• introduce a new technology to Western Canada</li> <li>• improve productivity throughout an industry in Western Canada</li> <li>• replace imports with Western Canadian products</li> </ul>	<p>A project is NOT eligible if it:</p> <ul style="list-style-type: none"> <li>• sustains an existing business without generating additional business activity (for example, bail-out, restructuring, recapitalizing or refinancing)</li> <li>• fails to obtain fully subscribed other assistance from federal, provincial, or local governments</li> <li>• is for a social or personal service</li> <li>• is for the purchase or expansion of a retail business</li> <li>• is to ensure the completion of an existing contract</li> </ul>

**Source:** Summarized from Western Economic Diversification Canada publications



**An ability to finance a proposed project through private sector financing does not make applicants ineligible. Rather, the Department assesses whether an applicant would have been willing to use private sector financing.**

funding. We then projected the sample results to the total population and concluded that 27 percent of all cases might have been able to raise additional commercial financing at the time they approached the Department.

**20.39** The Department's view is that a client's ability to raise private sector financing does not necessarily mean that the project would go ahead without program assistance. Even financially strong businesses might decide against a project if its expected rate of return falls below its own acceptable minimum, if the risk is unacceptably high, or if it can obtain better government incentives to locate elsewhere. Obtaining interest-free WD assistance can be the extra incentive that makes the project sufficiently profitable to justify proceeding.

**20.40** The Department indicates that it would not get into a bidding war with other Canadian jurisdictions for business to locate in the West, but would provide funding to encourage a location in Western Canada instead of another country. In our sample of 101 cases, we noted four projects with total funding of \$31 million as incentives to locate a

project in Western Canada as opposed to outside Canada. Exhibit 20.8 provides an example of a company that received \$15 million to locate a new plant in Western Canada alongside its existing plant, for which WD provided \$10 million in expansion funding. Exhibit 20.9 illustrates WD's involvement in a firm's relocation within Canada.

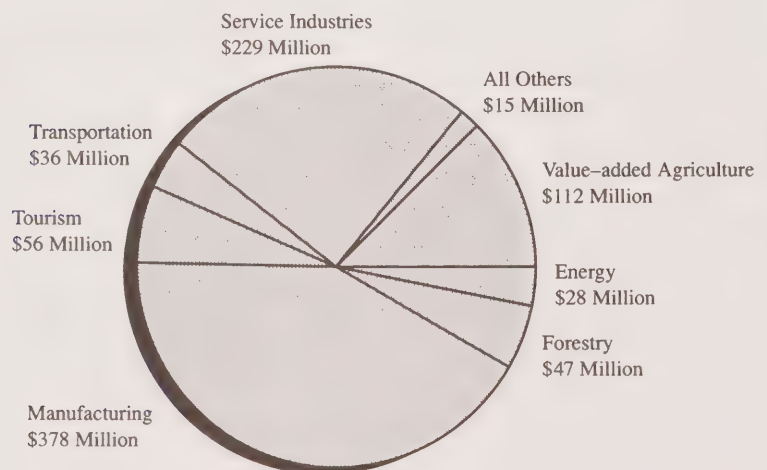
**20.41** In our view, there may be an economic rationale for government to provide an incentive for a company to locate in Canada instead of another country. However, it is much harder to conclude that the Canadian economy as a whole benefits when public funds are provided to favour one Canadian location over another.

**20.42** We conclude that the Department has provided assistance to businesses that had the financial capacity to complete the projects on their own. We cannot conclude what proportion of all WD-funded projects would have proceeded without the assistance.

**20.43** The Department attempts to assess the impact that a project is likely to have on competitors before approving a project, but it is hard to

Exhibit 20.7

Approved Western  
Diversification Program  
Funding by Industry Sector  
(\$ millions)



**Source:** Analysis of Western  
Economic Diversification Canada's  
database

Amounts are from inception to 31 March 1995, and total \$901 million



**predict the future effects of assistance with certainty.** WD attempts to avoid giving a business an unfair advantage by analyzing the potential impact of assistance on competitors before approving a project. If the Department concludes that a market or industry is competitive and that giving assistance to one company would harm Canadian competitors, it can provide systemic assistance instead to help the industry as a whole, or it can say no.

**20.44** We reviewed the assessment of competitiveness. Where existing businesses produce similar products, assessment can be complex. Analytical considerations include the following:

- Which geographical market does the project serve?
- Which market segment does the product serve (for example, high-value or low-value products)?
- Is the market served fully by existing producers?

**20.45** Exhibit 20.10 illustrates the complexity of assessing the potential impact of financial assistance on competitors. For example, funding a client that has competitors, whether or not they are producing the same product, does give it better liquidity. This also gives it a better chance of survival, and a better opportunity to expand and prosper, than other firms in the same industry. In our opinion, while the analysis helps to identify potential adverse impacts on competitors and causes WD to reject some applications, any assistance is likely to give clients some competitive advantage.

## Paying Cash and Monitoring Projects

**Verification of claims prior to paying assistance is appropriate**

**20.46** The Department pays its share of project costs after the client has paid them. The client sends a claim to WD and the Department performs due diligence steps before issuing cheques. Due diligence can include a combination of desk audit, assessing the risk and, in some cases, auditing the claim before issuing cheques. We conclude that WD has an appropriate process for verifying that claims are in accordance with the agreement.

**Monitoring of projects is incomplete**

**20.47** Departmental staff spend less time monitoring projects after payments are made than they do verifying claims before making payments. Consequently,

The Department approved \$25 million in assistance for two projects proposed by the Canadian operations of a multinational company: \$10 million for a plant expansion and \$15 million for a new plant. The funding is unconditionally repayable without interest over a period of 10 years, with the bulk of repayments due at the end of the 10 years.

The Department's files show that in the project analyst's judgment, the company would have undertaken the first project in Western Canada even without WDP funding. WD approved this project anyway. WD's analysis shows that other countries were also interested in obtaining the second project.

A company with its headquarters in central Canada and an operating office in Vancouver applied to the Department for assistance. The client agreed to move its headquarters to Vancouver if it received an acceptable offer of financial assistance from WD. The Department approved \$3.1 million in repayable contributions.

**The Department attempts to avoid providing financial assistance if a Canadian competitor would be hurt.**

**Cash is cash.**

Exhibit 20.8

**A Company Locates in Western Canada Instead of Elsewhere in the World**

Exhibit 20.9

**Western Diversification Program Assistance Tied to Relocating from Central Canada to the West**

Western Economic Diversification does a good job of verifying claims prior to paying assistance, but project monitoring fails to determine whether objectives are achieved.

The Department was innovative in making most financial assistance repayable, with or without conditions.

the Department has incomplete information on whether projects are successful in accomplishing their goals (see Exhibit 20.15).

### Collection of Repayables

**20.48** In 1990, Treasury Board approved a policy that required all financial assistance to business to be repaid. The policy allows — but does not require — ministers to exempt a number of categories of assistance. These include not-for-profit organizations, contributions under \$100,000, and projects where benefits accrue to a party other than the recipient.

**20.49** The Department had been innovative in pursuing repayments before Treasury Board issued this policy. Since 1987 the Department has made most contributions to individual businesses repayable. WD reports that about 73 percent of its total assistance is either conditionally or unconditionally repayable. Of this, 89 percent of regular dollars contributed are repayable, compared with only 6 percent of systemic dollars designed to benefit industries rather than specific firms. Of the repayable contributions disbursed prior to

31 March 1995, the Department expects to collect \$412 million.

**20.50** In the future, forecasting repayment collections will be increasingly important to planning and budgeting, since the Department expects to be allowed to spend what it collects. Exhibit 20.11 illustrates collections to date and those forecast up to 1997–98. The Department expects to collect an additional \$166 million after the 1997–98 fiscal year.

**20.51** While requiring repayment is a fiscally prudent policy in today's world, moving into the arena of repayable contributions has required the Department to adopt unique policies to deal with these added considerations. For example, should the Department require security similar to a commercial bank? How strong a position should the Department take if the business cannot pay back on time?

### Trade-offs between assistance and collection

**20.52** The Department does not take security for repayable contributions. Its rationale is that because WD has chosen to focus on economic diversification, it should share the risk with its clients. This also allows clients to keep more of their borrowing capacity available for external

#### Exhibit 20.10

#### Complexity of Assessing Competition

Two firms in the same industry applied for assistance. One was rejected because of WD's concerns about competition, but the second firm received assistance.

In 1989 the first company applied for \$256,000 to market its products in the United States. The applicant noted three previous cases where Canada or provincial governments had given at least \$20 million to other competitors in Canada. WD rejected this application on the grounds that assisting the project would adversely impact competing firms.

In 1990 the Department approved two projects by a second manufacturer in the same industry. One was for \$900,000 for product research and development for the U.S. and European markets, and the second for \$1.9 million to help it to construct inventory for consignment sales in the U.S. and Europe. WD approved these projects as new export markets under the diversification test.

The Department's documented analysis of the second project identified 28 manufacturers in this industry in Canada. However, the Department justified the assistance because the specific project was for a product that would not compete directly with the other manufacturers. In WD's view, its support would not give a competitive advantage to this client.

financing. The policy puts WD at a disadvantage next to other lenders when projects fail and are liquidated: it is an unsecured creditor. There may be insufficient funds available to repay it after all secured creditors are repaid.

**20.53** The Department is conscious of its diversification mandate and sometimes has to make trade-offs between collection of overdue amounts and the risk of putting financially vulnerable companies out of business. Under departmental policy, WD will not pursue the collection of repayments if it means putting a client out of business.

**20.54** The Department does not charge interest on contributions that are repaid on schedule, but it does charge interest on repayments that are late. However, if the client and the Department agree to reprofile the repayments from the original due dates to some future time, WD charges no interest.

#### Some debts are reprofiled

**20.55** Some clients have been unable to repay their debts on time and have requested that they be reprofiled to a later date. For example, our sample contained

65 repayable cases, 27 of which have been reprofiled for 2.5 years, on average.

**20.56** Reprofileing may be appropriate in some cases where:

- the project is running late;
- the client has a poor cash situation; and
- forced repayment would put the client into default with other lenders.

#### Conditional repayments could continue for years

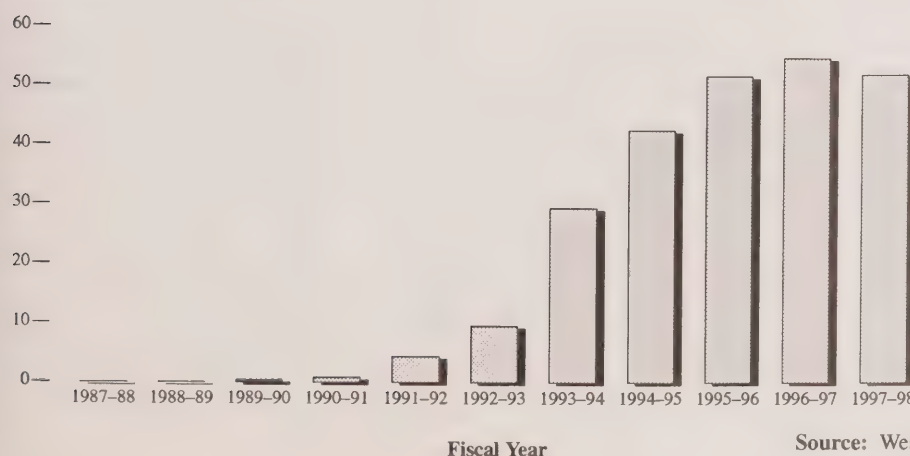
**20.57** The Department has approved \$109 million of conditionally repayable assistance under the Western Diversification Program, and some of it will not come due for several more years. It may be in the collection business for many years. For example, one recipient received approval for \$7 million of assistance, \$5.5 million of which is to be repaid at the rate of 2 percent of annual revenues of \$15 million or more. To date, sales are below \$15 million a year. If revenues rose to and remained at \$15 million a year, repayments would continue for 18 years.

**20.58** The Department has to deal with the essential conflict between its

**The Department is willing to defer collections if clients can demonstrate a need.**

**Helping clients and collecting repayments are contradictory objectives.**

\$ Millions



Source: Western Economic Diversification Canada

Exhibit 20.11

#### Western Diversification Program Collections by Fiscal Year

*Collections for 1995-96 and subsequent years are management's forecasts based on amounts paid by the Department to 31 March 1995.*



**Repayments based on conditions such as amount of sales may continue for years.**

**The Department notes actual losses to date on the WDP of 5.6 percent. However, it is a young program with many repayables not yet falling due. Losses have a cost to the government, but also suggest that the Department is filling a unique niche rather than being just another bank.**

diversification and collection mandates. Imposing draconian collection tactics may backfire by forcing more businesses into insolvency or financial difficulties, with resulting criticism. Accurately predicting repayment cash flows and collecting them is equally challenging. Given that WD has now withdrawn from providing large-scale financial assistance to business, the time may be right to modify its collection processes for outstanding WDP collectables, in future, such as charging interest on all deferred amounts, and taking security as a condition of agreeing to later repayment.

**20.59 The Department should seek ways to minimize future collection costs of conditional repayables.**

*Department's response: The Department examines, on a continuing basis, opportunities to reduce costs related to all collection activities while protecting the investment of the Canadian taxpayer. The Department will continue to implement measures that support timely and cost-effective collections of receivables without unduly compromising the viability of clients.*

**Allowances for doubtful accounts suggest the Department has found a niche**

**20.60** In the financial market each institution may have a different mandate, corresponding to its willingness to accept lending risk. Banks are profit-oriented and usually aim for less than one percent of bad debts. The Federal Business Development Bank, which has become the Business Development Bank of Canada, is also profit-oriented but focusses on higher-risk projects. Its loan loss experience averages 6.5 percent. Venture capital organizations may accept still higher risk.

**20.61** Because WD supports new and often higher-risk projects, we expected its bad debts to be high. However, since many of the projects are not yet in the repayment phase, actual losses to date have not been large (5.6 percent). We did not audit this information. This loss rate may not give a full picture of the Department's ultimate losses on the WDP since 60 percent of total WDP assistance is not yet in repayment phase, and many receivables have been reprofiled.

**20.62** Included in the summary financial statements of Canada as of 31 March 1995, the Department has \$346 million in WDP accounts receivable, and has provided an allowance of 22 percent for doubtful accounts. The government's instructions for preparing this information require this provision to be a department's best estimate of amounts that will not be collected. The final WDP losses will not be known for many years. The allowance of 22 percent for doubtful accounts suggests that the Department has successfully identified emerging high-risk projects, its target market. Banks would be less likely to fund these high-risk projects.

**20.63** This illustrates the dilemma facing the Department. If it recovers all its money, it risks criticism that it is not funding the niche projects it has targeted and is competing unfairly with the capital markets. If it loses large amounts, it faces criticism for making bad investment decisions and wasting money.

**20.64** In our sample of 101 cases, 15 had scheduled repayments for 1993-94. Exhibit 20.12 shows that significant amounts were reprofiled, and even then, less was collected than forecast.



**Assistance to business associations generally lacks clear objectives and is generally non-repayable**

**20.65** Most non-repayable assistance is to associations rather than to individual businesses. Of our 101 sample items, 10 were contributions to business associations and all 10 were non-repayable. Projected to the total population, approximately 11 percent of all WD cases are of this type.

**20.66** We identified from the Department's database 44 projects by business associations, with individual funding of \$300,000 or more (total \$59.1 million). Eighteen were for \$1 million or more, with the largest at \$9.4 million. Less than one percent of the funding (only one of the 44 projects) was repayable. While the funding covers various activities, the most frequent were market development, trade shows and technology development projects. Five associations received funding for three projects each and another received support for two, totalling \$12.3 million.

## Other Issues

### More than one government or government agency involved

**20.67** Our objective was to examine whether the Department avoids unnecessary duplication of programs offered by other departments, other governments and non-government entities.

**20.68** Of our 101 sample cases, 54 had approved funding totalling \$282 million from at least one other federal department or provincial or municipal government, in addition to \$300 million from WD. Total project costs for the 54 cases were \$930 million, of which governments provided 63 percent. When these test results are applied to the case population, approximately 59 percent of WD assistance is to clients with other government funding.

**20.69** We analyzed WD's database to determine the percentage of government funding for all 3,586 approved projects (see Exhibit 20.13). For WD's own assistance there is no clear link between the size of a project and the percentage of WDP funding. But the "Other

**Most assistance to individual business is repayable, but assistance to industry associations is generally not repayable.**

\$ Millions

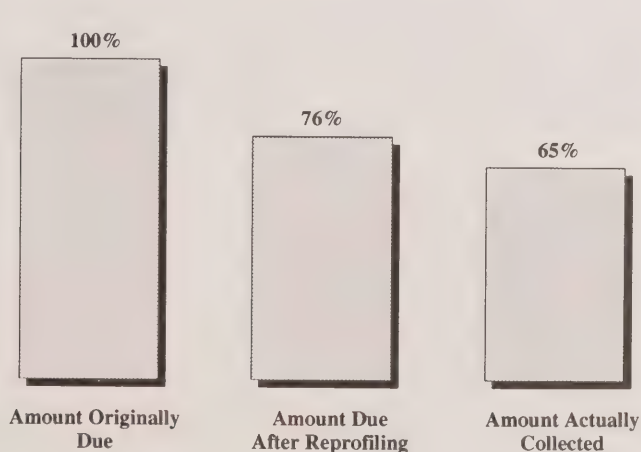


Exhibit 20.12

Revenue Collected for the 15 Items with Scheduled Repayments in 1993-94 from Our Sample of 101 Projects

Source: Analysis of our 101 sample items

**The Department is moving toward having others deliver programs on its behalf.**

**Individual clients receive funding from more than one government source. The Canadian taxpayer pays the administrative costs of this overlap.**

Government Funding” recorded shows that the largest projects receive the greatest percentage of assistance. Combined, WDP and “Other Government Funding” provide funds to cover an average of 40 percent of total project costs.

**20.70** All Canadian governments get their money from the same source, the taxpayer. Various programs have different approval criteria, sometimes with only subtle differences, sometimes with major differences. But each program has its own administrative costs. Even though their mandates may vary to some degree, if more than one government source funds a particular project this suggests overlap, if not duplication.

#### **Frequent recipients of government financial assistance**

**20.71** Fifty-one of the 101 cases have received other WD funding of \$136 million (for 117 additional projects). Twelve of those 51 now have projects on

WD’s Project Watch List or have already been written off, representing \$39 million or 13 percent of the amount approved.

#### **Move toward third-party delivery**

**20.72** Subsequent to our audit, WD approved \$38.4 million over five years for Women’s Enterprise Centres, divided equally among the Western provinces. Under these initiatives, \$20 million is for loans to women entrepreneurs. Recently, the Department also agreed to provide repayable contributions to Western Investment Funds that target certain types of businesses in partnership with financial institutions. The Department expects that these new Western Investment Funds will be an important part of the new approach to the WDP. We did not audit WD’s assistance to Women’s Enterprise Centres or Western Investment Funds.

**20.73** During our testing of our 101 sample items, we noted three cases where the Department approved \$17 million to three outside organizations that deliver funds for purposes and to

**Exhibit 20.13**

**Average Percentage of Government Assistance by Size of Project for All Projects Approved under the WDP (\$ millions)**

Project size	Number of Projects	Total Project Cost for All Projects	WDP Funding		Other Government Funding		Total Government Funding	
			\$	% of total cost	\$	% of total cost	\$	% of total cost
over \$10M	57	\$ 1,472	\$ 313	21	\$ 281	19	\$ 594	40
\$5M to \$10M	78	555	195	35	45	8	240	43
\$1M to \$5M	364	793	233	29	62	8	295	37
\$500,000 to \$1M	306	213	69	32	13	6	82	38
0 to \$500,000	2,781	246	91	37	10	4	101	41
<b>TOTAL</b>	<b>3,586</b>	<b>\$ 3,279</b>	<b>\$ 901</b>	<b>27</b>	<b>\$ 411</b>	<b>13</b>	<b>\$ 1,312</b>	<b>40</b>

**Source:** Western Economic Diversification Canada’s database

clients that the Department could have funded directly under the WDP. Exhibit 20.14 illustrates one of these.

**20.74** Change and program redesign are now typical in government. In our view, it is important to ensure that significant changes in programs or program delivery are based on adequate analysis and selection of the most cost-effective options.

### Incomplete Evaluation of the Western Diversification Program, and Piecemeal Reporting

**20.75** The stated objective of the WDP is economic diversification. Given the nature of the Program, WD should be able to demonstrate that it has created economic benefits or achieved other predefined objectives for the West that outweigh its program costs, or else explain why they have not.

#### The Department's expenditures in relation to the Western economy

**20.76** While the Department's cumulative spending since its inception is about \$1 billion (\$769 million on WDP) and its other non-spending activities may also have had an impact, this pales in significance compared to the size of the Western economy. For example, in 1994 the gross domestic product of the four Western provinces was about \$203 billion. In that year, WD disbursed about \$140 million on the Program, plus \$30 million on operations.

**20.77** The Department is subject to the Treasury Board's program review policy. This requires departmental managers to conduct evaluations, audits and other reviews to assess the performance of their policies, programs and operations. In addition, the *Western Economic Diversification Act* requires WD to

compile information on the Program and its projects. We expected to find that it had measured and analyzed the results of its program activities through cost-effective, periodic evaluation studies and ongoing performance measurement, and had reported the findings to Parliament and other stakeholders.

#### Some evaluation-related studies have been done

**20.78** The Department's lack of specific, measurable objectives for the WDP has adversely affected its ability to do meaningful evaluation. Despite this problem, to date it has produced 14 evaluation-related studies, including four relating to predecessor programs and 10 related to the WDP.

**20.79** Of the 10 related to the WDP:

- Three assessed client satisfaction with the Program. While they provided useful input for modifying the service aspects of program delivery, they did not address key questions related to achievement of program objectives. They could have been more useful had they gone further and explored, among other questions, whether clients would have proceeded without WD assistance.
- One developed service targets for the Department. These were used to implement a system for measuring and reporting the times taken to assess applications.
- Two identified performance indicators that would be useful in

Evaluations to date have been piecemeal. Overall they do not demonstrate whether or not the Western Diversification Program has achieved its objectives.

The Department approved a \$6.4 million non-repayable contribution in November 1990. Up to \$1.3 million can be used for operating costs, and the remaining \$5.1 million is for investments in other companies in a particular industry.

Since its inception, the client has approved investments totalling \$1.7 million in 11 companies. Five of those investments, totalling \$668,000, were in companies for which WD had also approved funding of \$6.1 million.

Exhibit 20.14

#### Contribution to a Third Party That Also Makes Investments



assessing results, but that were not used by the Department to actually assess results.

- Four reviewed the program's impact on new or sunrise sectors of the economy. Only these four attempted to address some of the Program's results, but in a limited way.

**20.80** Together, these 10 studies provide only limited information on the results of the Program.

#### **Poor indicators are used to demonstrate results**

**20.81** Notwithstanding the lack of measurable program objectives and the limited evaluation efforts, WD has developed indicators that it uses to illustrate what it views as the WDP's successes. It reports to Parliament through Estimates Part III, appearances before committees and specific reports. These reports contain program performance information, including favourable data on jobs and on leverage (the amount of investment money from other sources in projects supported by the Department), plus other selected quantitative and qualitative information. The Department also reports internally for management purposes, and has produced periodic reports for the public.

**20.82 Data on jobs created are inadequate.** Internally, WD produces quarterly reports on jobs created or maintained, even though it has not defined what a job is. None of the data contain qualitative information on whether a job was permanent, part-time or temporary. An alternative measure of employment could be the client's incremental payroll for the project, updated periodically. While the Department has not publicly reported job data since 1992, recent media reports attributing job claims to WD suggest that the public values the information. At March 1995, management

reports showed 42,000 jobs created or maintained by the Western Diversification Program.

**20.83** Our audit showed, however, that these 42,000 jobs include:

- 3,800 that according to WD's own database were in businesses that have closed, gone bankrupt, gone into receivership or ceased operations, or that owed bad debts to WD; and
- 8,200 related to projects approved under the programs inherited by the Department.

**20.84** Claims that jobs have been created by the Program are unverified and are based on estimates made at the time of project funding proposals. Combined with the fact that its monitoring of projects is limited in both time and scope, this means that the Department has no assurance that the 42,000 jobs projected at the time of proposal actually materialized.

**20.85** Unqualified statistics on jobs created or maintained, irrespective of how they are used, can only lead to a false sense of achievement if they are not balanced by realistic qualifiers.

**20.86 Data on leverage are inadequate.** WD reports leverage information as an indicator of program success. This can be a useful indicator of program results but, like job claims, suffers from attribution problems. If several organizations put money into a project, how many of them can claim that any success is due to their efforts? As the Department claims to be the last of several sources of project funding in topping up, how much credibility can be attached to its claims of leverage?

**20.87** Like the Department's job data, the leverage information loses some credibility because it reflects original project estimates, not subsequent reality. As well, it includes \$411 million

Jobs and leverage data are used as performance indicators, but lack credibility.



contributed by other governments yet ignores the reality that all funding comes from one taxpayer source.

**20.88** As a consequence of the way the Department calculates jobs and leverage indicators without disclosing assumptions and limitations, parliamentarians and others may attribute more credibility to them than is warranted. Just as important, the focus on these two simple indicators may draw attention away from the absence of more meaningful program evaluation.

**20.89** The Department should ensure that all performance indicators are based on credible underlying data and clear definitions.

*Department's response: The Department agrees with this recommendation. The Department is also cognizant of the limitations surrounding some performance indicators and is taking steps to improve their collection and reporting.*

#### **Project success or failure is not known**

**20.90** Knowing whether individual projects met their objectives is a necessary but only partial means of gauging program results as a whole. Whether it is a good indicator depends largely on whether project objectives are consistent with those of the Program.

**20.91** During our testing, we noted that individual project assessments always identified one or more benefits expected from the case. Although these objectives were not the same for every project, we did test to see whether they had been achieved. For example, did the client reach sales targets or hire the number of personnel anticipated? In our 101 sample items, we identified a total of 185 objectives. Exhibit 20.15 shows our findings.

**20.92** The data suggest that one third of the projects achieved their objectives and one third did not, and it is too early to tell about the remainder.

#### **About a billion dollars in approved expenditures; poor evaluations; and now the Program is changing**

**20.93** In summary, evaluations of the WDP failed to cover significant areas, including the rationale for the Program, its success and the cost-effectiveness of alternative ways of delivery. As a result, WD has been unable to demonstrate the effects of the Program or whether or not it achieved its objectives.

**20.94** In our view, a program running for eight years before the current changes that has committed about \$1 billion of taxpayers' cash deserved better evaluation.

#### **Results of Procurement Advocacy Are Not Known or Reported Fully**

**20.95** One of the Department's objectives is to influence national policy and decision making through advocating

**Exhibit 20.15**

#### **Rates of Achieving Project Objectives**

Achievement of 185 Objectives		
	For 101 Sample Items	Projection to all cases*
Objective achieved	23%	33%
Objective not achieved	23%	34%
Too early to tell if objective achieved	46%	30%
We could not tell if objective was achieved	8%	3%
<b>*Other than the 19 over \$6.1 million</b>	<b>100%</b>	<b>100%</b>

Source: Our sample of 101 items

**WD claims success for procurement advocacy but does not include important qualifiers.**

Western interests. One aspect of this is to help Western businesses become suppliers in response to federal government procurement needs. The Department's stated goal is to help obtain equal access, rather than to gain advantages for the West at the expense of other regions.

**20.96** In Part III of the Estimates, the Department has reported success in advocating the West's interests in federal procurement. In one important claim, it calculates that the West's share of federal industrial and regional benefits on major Crown projects has increased from 7 percent of total benefits between 1976 and 1988 to 35 percent since 1988, when it became involved in the procurement process. The Department indicates that it contributed to this increase.

**20.97** Industrial and regional benefits are not the same as the total value of a contract. Benefits include the direct Canadian content value of contracts and subcontracts awarded to a region. There are also indirect benefits such as technology transfer and the likely value of future sales to others as a result of the expertise gained, and supplier contracts for other goods and services.

**20.98** We expected to find that the Department's claims would include an analysis of any components not yet proved or those estimated, along with the basis for such estimates. For example, if the claims included a component of future sales, what time period would these cover and what conditions would have to be met to consider them realized?

**20.99** One major project of significant interest to the West was the Tactical Command, Control and Communications System (TCCCS), a \$1.89 billion project. The Department claims that Western businesses gained benefits of \$936 million from this project, almost 74 percent of the

total benefits identified. In this case, significant professional expertise was transferred from Ottawa to undertake the work.

**20.100** What is not clear is whether all of these benefits remain in the West. For a high-technology project such as this, WD does not report whether Western businesses have to subcontract parts of the work to other regions, or procure goods and services offshore. The Department bases its claimed benefit on contractual obligations, including future events. For example, the TCCCS project is not scheduled for completion until 2001. Claims include projections of \$371 million in future sales derived from Western business involvement in TCCCS and another project, the Canadian Automated Air Traffic System. Although claims are based on contractual obligations, future events are inherently uncertain, yet this is not explained.

**20.101** The Department did not provide explanations when reporting the results of its procurement advocacy efforts in major Crown projects. As a consequence, parliamentarians and others may attach greater value to claims than is warranted, and may not be aware of potential inadvertent side effects such as reduced procurement in other regions.

**20.102 The Department should:**

- provide necessary explanations and describe side effects when reporting its procurement advocacy results; and
- develop more appropriate methodology to measure and report on the procurement advocacy function and other ongoing and new programs.

*Department's response: While the Department is aware of the complexity involved in measuring and reporting results related to procurement advocacy and new programs, the Department will continue to work toward the development*



*of improved methodologies for measuring and reporting on these activities. However, it should be noted that the industrial regional benefits listed for future sales derived from TCCCS and the Canadian Automated Air Traffic System (CAATS) are based upon contractual obligations of the contractor to the Crown and are not estimates. Furthermore, major Crown projects are new procurements and, as a consequence, anything undertaken in the West does not represent reduced procurement in other regions.*

## Results Assessments Need to Be Developed for the Future

**20.103** The Department plans to introduce a series of Western Investment Funds, which will be partnerships with financial institutions. WD and the partners will share the design and control features. The Funds will likely work at arm's length from normal departmental processes, and accountability for best use of the Crown's funding share will be diffused. It is important that the design characteristics include results measurement based on periodic evaluation, financial reporting, and ongoing performance measurement.

**20.104** Other activities such as ongoing procurement advocacy and changes to the Western Diversification Program present WD with other opportunities to measure results. There is room to improve the evaluation and reporting of the results of its programs.

**20.105** The Department should ensure that appropriate objectives and expected results are built into joint venture or partnership arrangements, along with clear requirements for their measurement and reporting.

*Department's response: The Department agrees with this recommendation and acknowledges the significance of clear objectives and expected results, which are*

*integral to relevant measurement and reporting. The Department has already adopted this approach in new initiatives under way in the Department such as the International Trade Personnel Program, Investment Funds, Community Futures and Women's Enterprise Centres.*

## Roles of Headquarters and the Ottawa Office

**20.106** The Western Economic Diversification Act requires the Department to have its principal office in Edmonton, Alberta and to maintain at least one office in each of the other three Western provinces. In addition, the Department has an office in Ottawa. Exhibit 20.16 illustrates approved WDP funding by province, and budgeted staff in each office.

**20.107** Offices in Vancouver, Edmonton, Saskatoon and Winnipeg are all headed by assistant deputy ministers. Headquarters and the Ottawa office have support roles:

- Headquarters is headed by an Executive Director and a Director General who both report to the Deputy Minister. It has responsibilities for policy and programs and public affairs.
- The Ottawa office is headed by a Senior Assistant Deputy Minister. It has responsibilities for liaison with central agencies, support to the Minister, advocacy of the West's interests, and economic policy, and has several department-wide functions including finance and professional services, personnel, audit and evaluation, legal services and computer operations.

**20.108** The Department needs to have some staff in Ottawa to provide support to the Minister. But it is less clear why the Department's support services are also based in Ottawa. For a Western-based department, a large number of its central functions are located in Ottawa. By comparison, its sister organizations, the

The Department has six offices. Four deliver programs, and two have support roles.

**The Department cannot demonstrate that it has been successful, even though it has used innovative processes and management techniques.**

Atlantic Canada Opportunity Agency and the Federal Office of Regional Development–Quebec, have most of their central functions located in Moncton and Montreal respectively.

**Location of staff and functions needs review**

**20.109** The Department could not provide us with information to demonstrate that current staff levels and the present locations make the most economic sense.

**20.110** The Department should review its allocation of staff functions, in relation to the intent of the Act, and their cost.

*Department's response: The Department agrees with this recommendation and an examination of administrative functions is currently under way. The results will assist the Department in determining appropriate support levels for various*

*functions in light of the new direction of the Department.*

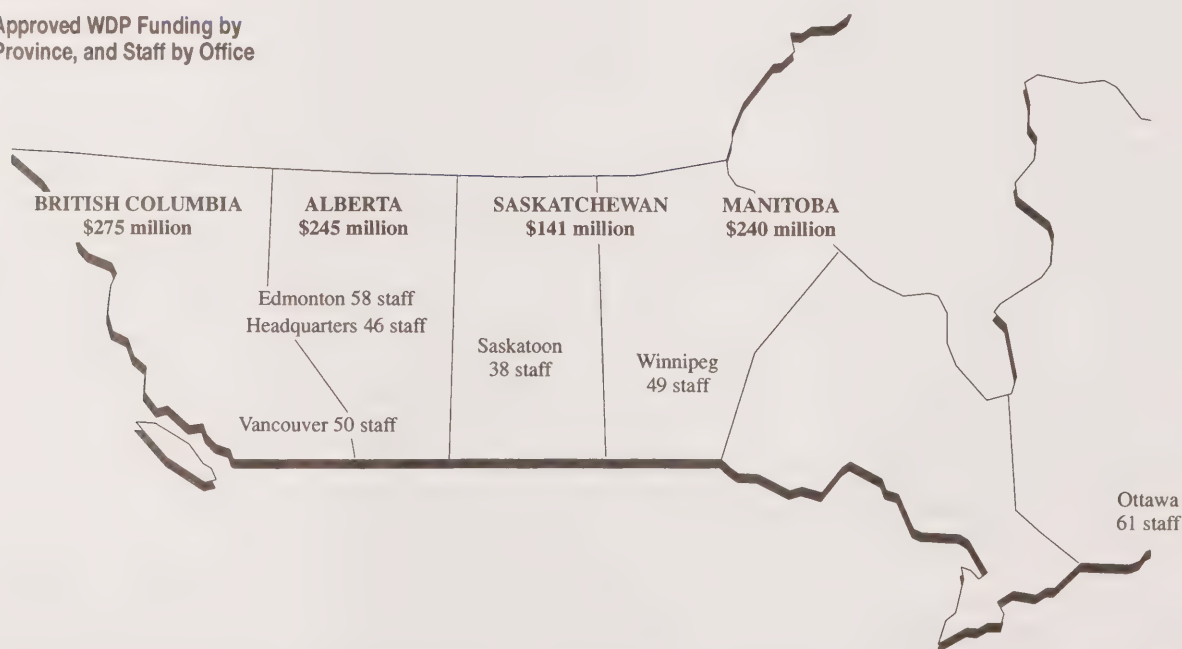
## Conclusion

**20.111** Among regional development agencies, WD's mandate is significantly different. Largely because of the relative prosperity in Western Canada, the Department has no explicit or implicit social mandate such as is inherent in other regional development programs. Similarly, while its Act provides for both development and diversification, the Western Diversification Program focusses exclusively on diversifying the economy away from traditional, natural resource-based activities. Because these traditional activities are subject to periodic boom and bust cycles, diversification offers an attractive alternative.

**20.112** From the start, management set out to make the Department free of red

Exhibit 20.16

Approved WDP Funding by Province, and Staff by Office



Source: Approved WDP funding from Western Economic Diversification Canada. Budgeted staff from Part III of the 1995–96 Estimates.



tape. The Department does not have rigid processes from application through assessment.

**20.113** The big question is how much difference the Department has made during its eight years of existence.

Although it has identified successful projects, it has not produced meaningful, accurate measurements of results or appropriate program evaluations. The effectiveness of non-cash interventions has been similarly difficult to measure. Thus, WD cannot answer the critical questions of the degree to which it has been successful and whether the benefits it has produced outweigh the costs.

**20.114** Notwithstanding this lack of demonstrable results, the Department has introduced some innovative processes and practices that can serve as a model for other departments. A key one is the

contribution repayability initiative, which the Department introduced in 1987. While providing financial assistance on the one hand seems to conflict with requiring it to be repaid on the other, WD broke new ground.

**20.115** However, systemic assistance to industry and similar groups is not repayable. Moreover, the Department has deferred many projected repayments into the future, leaving the ultimate loss in bad debts still undetermined.

**20.116** As it moves into new programs, WD can learn from its collective experience. It should ensure that new and continuing programs have clear objectives, cost-effective program delivery that provides good service to clients, and clear accountability to Parliament.

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# Chapter 21

**Industry Canada**

**Regional Development Programs**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*



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## Industry Canada

### Regional Development Programs

*Assistant Auditor General: Maria Barrados*

## Main Points

**21.1** Industry Canada has responsibility for two funded regional development programs: the Federal Economic Development Initiative in Northern Ontario (FedNor) and the Canada-Quebec Subsidiary Agreements on Industrial Development.

### **Federal Economic Development Initiative in Northern Ontario**

**21.2** Most projects supported by FedNor involve financial contributions of under \$100,000. FedNor needs to streamline its application review and approval process. FedNor officers have had a difficult task applying a common set of assessment criteria and guidelines consistently to every project application, regardless of size and risk. Approval times are longer than expected, on average 90 days against a target of 55 days.

**21.3** The actual benefits achieved by FedNor-supported projects often fall short of the expected economic benefits indicated in project applications. The 1992 evaluation of the program has not provided a high-quality analysis of program results. In addition, the preparation of an evaluation framework for the FedNor Business Incentives Program has not yet been initiated.

### **Canada-Quebec Subsidiary Agreements on Industrial Development**

**21.4** Two subsidiary agreements were established to co-ordinate industrial development measures of the federal government and the government of Quebec. The total federal government funding to the agreements is \$381.25 million. Management and project officers believe that the current administrative process works well with good co-operation between the two levels of government.

**21.5** The two subsidiary agreements include broad objectives but these were not translated into more specific development goals. Also, there were no formally established priorities or development plans as called for in the agreements.

**21.6** Major industrial and infrastructure projects need to meet specific selection criteria to qualify for assistance. However, we found that funding decisions were often not supported by a persuasive analysis of key issues such as economic benefits and incrementality.

**21.7** Appropriate performance measurement is lacking, thus limiting the Department's ability to assess the performance of the agreements.





## Introduction

**21.8** Industry Canada has a mandate to make Canada more competitive by fostering business development, by promoting a fair and efficient Canadian marketplace and by protecting, assisting and supporting consumer interests. It has programs that are national and programs that are regionally targeted.

**21.9** As of 31 March 1995, the Department had about 5,500 employees and a budget of \$1.3 billion. The vast majority of the expenditures are directed to national programs. As a result of the February 1995 Budget, the Department has terminated or not renewed 43 of its financial assistance programs. The Federal Economic Development Initiative in Northern Ontario (FedNor) Business Incentives Program and the Canada-Quebec Subsidiary Agreements on Industrial Development are among the Department's 11 financial assistance programs that continue to exist.

**21.10** We reported on certain national programs in Chapter 14 of our October 1995 Report. The present chapter covers the two funded regional programs, FedNor and the Canada-Quebec Subsidiary Agreements on Industrial Development.

**21.11 FedNor.** In 1987 the government approved the establishment of a special Northern Ontario Development Fund of \$55 million spread over five years, to address the economic disparities and adjustment problems of northern Ontario. While other federal regional development entities are separate departments, FedNor is administered by Industry Canada. In 1992 the FedNor initiative was extended for five years to 31 March 1997. Also, the FedNor Business Incentives Program was created to replace the former assistance programs, as shown in Exhibit 21.1. Its

funding has been increased to almost \$140 million over 10 years.

**21.12** The objective of FedNor is to encourage economic growth and diversification, job creation and income generation in northern Ontario. The initiative is targeted toward small and medium-sized businesses in the region. Exhibit 21.2 summarizes some of the key characteristics of the FedNor financial assistance program.

**21.13** Under the regional organization of Industry Canada, the FedNor Secretariat located in Sault Ste. Marie is responsible for delivering the initiative. There are also offices in Sudbury, Thunder Bay and North Bay. A total of approximately 30 employees work in these offices.

**21.14 Subsidiary agreements.** In December 1984 the federal government and the Quebec government entered into an Economic and Regional Development Agreement. The objectives included furthering economic development and reducing disparity in opportunities. This agreement provides for the two governments to enter into subsidiary agreements to co-ordinate measures that

**Industry Canada has programs that are national and programs that are regionally targeted.**

**Exhibit 21.1**

### FedNor Financial Assistance Programs

1987	Current Status
Rural Small Business Assistance Program	Business Incentives Program
Core Industrial Program	
Tourism Assistance Program	
Loan Insurance Program	Discontinued

Source: Industry Canada

**The FedNor Business Incentives Program and the Canada-Quebec Subsidiary Agreements on Industrial Development are among Industry Canada's 11 financial assistance programs that continue to exist.**

require funding from both levels of government.

**21.15** Two Canada-Quebec Subsidiary Agreements on Industrial Development were signed, one in 1985 and another in 1992. They both expire on 31 March 1997. The federal portion of the budget for the first subsidiary agreement is \$221.25 million, with a similar amount from the Quebec government. For the second subsidiary agreement, the federal and Quebec budgets are \$160 million and \$140 million respectively.

**21.16** The subsidiary agreements seek to stimulate growth in industrial investment and to foster strategic industrial projects in Quebec. Exhibit 21.3 summarizes some of the key characteristics of the Canada-Quebec Subsidiary Agreements on Industrial Development.

**21.17** As of 31 March 1995, approximately 135 projects had been

approved under the two agreements, with authorized federal assistance in the form of contributions totalling about \$316 million. Seven major industrial projects, with authorized federal assistance ranging from \$10 million to \$55 million each, account for about half of the assistance authorized. The federal portion of uncommitted balances amounted to \$12.9 million for the first agreement and \$39.7 million for the second agreement.

**21.18** In 1991, the organizational unit responsible for regional economic development in Quebec was separated from what was then Industry, Science and Technology Canada to become the Federal Office of Regional Development-Quebec (FORD-Q). It took over responsibility for the 1985 Canada-Quebec Subsidiary Agreement on Industrial Development. FORD-Q also managed the second subsidiary agreement, signed in 1992. However, in 1994 FORD-Q changed its

**Exhibit 21.2**

**Key Characteristics of FedNor Financial Assistance Program**

Characteristics	Federal Economic Development Initiative in Northern Ontario
Program focus	Regional development of northern Ontario
Delivery mechanism	FedNor Business Incentives Program administered by Industry Canada
Target clients	Small and medium-sized businesses
Authorized federal funding	\$140 million over 10 years
Eligible projects	Research and development; quality, technology and management development; establishment of new businesses; expansion or modernization of businesses; feasibility studies; and marketing projects
Federal support per project	Range: \$1,750 to \$1.3 million Average: \$65,000

Source: Office of the Auditor General

regional development focus to concentrate on small and medium-sized businesses, as described in Chapter 19. Responsibility for managing the two subsidiary agreements was transferred back to Industry Canada in September 1994.

## Audit Scope and Objectives

**21.19** We examined Industry Canada's management of the Federal Economic Development Initiative in Northern Ontario (FedNor) and the Canada-Quebec Subsidiary Agreements on Industrial Development.

**21.20** The objectives of our audit were to identify opportunities for improvement in the control and management of

expenditures, in program delivery and in accounting for results.

## Audit Approach and Criteria

**21.21** Our audit approach included a detailed review of project files, field visits and discussions with management and project officers.

**21.22** We examined a sample of 40 FedNor projects authorized between June 1987 and March 1994. For the Canada-Quebec subsidiary agreements we selected for examination a sample of 14 major industrial projects, including all projects with authorized assistance of over \$10 million. In addition, we reviewed seven municipal infrastructure projects. These projects were approved during the period 1985 to 1994. We examined the selected projects using criteria adapted

Characteristics	Canada-Quebec Subsidiary Agreements on Industrial Development
Program focus	Industrial development in Quebec
Delivery mechanism	Federal-provincial subsidiary agreement managed jointly by Industry Canada and the government of Quebec
Target clients	Large firms and municipalities
Authorized federal funding	\$381 million over 12 years
Eligible projects	Major industrial projects, municipal infrastructure projects and feasibility studies
Federal support per project	<p>Major industrial projects: Range: \$558,250 to \$55 million Average: \$5.5 million</p> <p>Municipal infrastructure projects: Range: \$14,124 to \$2.5 million Average: \$395,554</p> <p>Feasibility studies: Range: \$26,400 to \$500,000 Average: \$104,146</p>

Exhibit 21.3

Key Characteristics of the Canada-Quebec Subsidiary Agreements on Industrial Development

Source: Office of the Auditor General



Applications for financial assistance are assessed by project officers using three main eligibility criteria: need and incrementality; viability; and economic benefits.

from the government's policies on grants and contributions. Additional audit criteria were obtained from the government guidelines on review, audit and evaluation.

## The Federal Economic Development Initiative in Northern Ontario

### Observations and Recommendations

#### Management of FedNor Financial Assistance Program

##### Need to streamline assessment and approval of applications for assistance

**21.23** Over 800 projects supported by FedNor had been approved to March 1995, with total authorized assistance of approximately \$54 million. Exhibit 21.4 shows a breakdown of the different types of projects.

**21.24** Most projects involve FedNor assistance under \$100,000 in the form of contributions. A contribution agreement,

which identifies the conditions of the contribution and the obligations of both the Department and the recipient, is required for each contribution.

**21.25** **Need for a streamlined set of guidelines and criteria.** Applications for financial assistance are assessed by project officers using three main eligibility criteria: need and incrementality; viability; and economic benefits. The project officer performs an analysis of the applicant and the proposed project and prepares a project summary for review by managers.

**21.26** When assessing need and incrementality, the project officer analyzes whether the applicant has the financial capability to undertake the project without assistance, and whether the project would proceed without assistance.

**21.27** The terms and conditions of the FedNor Business Incentives Program state that no contribution will be made if the project or the activity will not, or would not, make a significant contribution to the economic benefit of Canada and the region. Economic benefits include the creation and maintenance of full-time jobs, value added to resources and

Exhibit 21.4

Projects Supported by FedNor  
(June 1987 to March 1995)

Type of Project	Number	Authorized Assistance (\$ millions)
Establishment/Expansion/Modernization	615	43.9
Research and Development	42	5.7
Marketing (Studies and Trade Shows)	47	1.0
Quality Management	81	1.4
Other	41	2.1
<b>Total</b>	<b>826</b>	<b>54.1</b>

Source: Industry Canada



products, increased exports and employment of new technology.

**21.28** These criteria are to be applied to each project, regardless of its nature and size. FedNor officers have had difficulty applying the assessment criteria consistently to all projects, particularly those that are small. The financial need for support has not always been explained in project summaries prepared by project officers. For example, we found that the financial need for assistance was not clearly demonstrated in all four quality management projects that we examined in our sample.

**21.29** We also noted that many projects are very small and the criterion that a project will make a significant contribution to the economic benefit of Canada and the region is conceptually difficult to apply.

**21.30** FedNor contributions range from \$1,750 to \$1.3 million. With a single set of guidelines and criteria to be applied to this wide range of projects, many of them small with relatively low risk, FedNor officials are left with what they find to be an almost impossible task of applying guidelines and criteria consistently.

**21.31** In our view, it is not realistic to apply the same assessment guidelines to all projects. The many small projects that FedNor supports require an approach tailored to them.

**21.32 Need to streamline review and approval process.** Applicants have expressed concern about the substantial volume of complex paperwork required to file an application for FedNor assistance and the delays in the approval process. FedNor has established a target of 39 working days (55 calendar days) to process an application for assistance, from the time the application is received to the

time a final decision is made; and a target of 46 working days (65 calendar days) to send a letter of offer or rejection to the applicant.

**21.33** In the 40 sample cases we reviewed, we found that the FedNor Secretariat took an average of 90 calendar days to approve an application. This is 35 days more than the target of 55 calendar days. Also, our analysis of the decisions made under the Business Incentives Program for the fiscal year 1994-95 confirmed that the Secretariat took almost 87 days on average to decide on an application for FedNor assistance of less than \$100,000.

**21.34** FedNor has developed an information package for applicants to file applications. However, some small businesses continue to have difficulties understanding the information and documentation requirements.

**21.35** FedNor needs to streamline its application review and approval process to better meet client needs and to reduce the time taken to process applications.

**21.36 FedNor should develop a streamlined set of guidelines and criteria for assessing applications, differentiated by their size and risk. It should also simplify its application documentation, particularly for small projects.**

*Department's response: In the spring of 1995, opinions of stakeholders in northern Ontario were sought. This was followed by a conference held in June 1995. Analysis of the results of these consultations will provide the basis for amendments to the FedNor Business Incentives Program. Ease of access to the Program, particularly for small firms, is a point that will be addressed. Future guidelines and criteria for assessing applications will be tailored to the revised program.*

FedNor officers have had difficulty applying the assessment criteria consistently to all projects, particularly those that are small.

Applicants have expressed concern about the substantial volume of complex paperwork required to file an application and the delays in the approval process.

**Fifty-two percent of the recipients of FedNor assistance also obtained financial support for their projects from provincial government programs.**

**Opportunities exist to improve co-ordination with other agencies**

**21.37** Applicants for FedNor assistance often applied for financial support from the provincial government and other federal agencies, in addition to obtaining bank financing.

**21.38** For example, at the time of our audit, the provincial Northern Ontario Development Corporation (NODC) was the primary delivery agent for the Northern Ontario Heritage Fund Corporation (NORFUND, Special Projects and New Technology Programs) and for two programs of the Ministry of Culture, Tourism and Recreation (Destinations North Program and Tourism Redevelopment Incentive Program). The NODC also had its own direct loan and loan guarantee programs. Assistance was usually in the form of forgivable performance loans or repayable interest-bearing term loans at near market rates.

**21.39** In the sample of contribution arrangements we reviewed, project files showed that 52 percent of the recipients of FedNor assistance also obtained financial support for their projects from provincial government programs.

**21.40** In cases where FedNor applicants also sought financial support from the provincial government, they had to submit separate applications and documentation such as business plans and financial statements to both the FedNor Secretariat and the Northern Ontario Development Corporation. Project officers of each organization had to consider the availability of other possible funding in assessing applications, but each funding entity had its own internal review and approval process as well as administrative procedures to process payments.

**21.41** In our view, there may be opportunities for FedNor to co-ordinate approval and administrative procedures with other agencies to improve the efficiency of program delivery.

**The vast majority of FedNor contributions were non-repayable**

**21.42** In April 1990, Treasury Board approved a repayable contributions policy that requires, subject to specific exemptions, that all contributions to business be repayable. The objective of the policy was to orient government business assistance programs more toward investing in economic development than subsidizing the private sector. Contribution arrangements that may be exempted include those for less than \$100,000. However, lower thresholds may be established by departments and agencies.

**21.43** Twelve contributions of exactly \$100,000 each that were approved by FedNor after the implementation of the policy were not made repayable. Exhibit 21.5 shows a breakdown of repayable and non-repayable contributions to 31 March 1995. Most contributions authorized by FedNor were not made repayable.

**21.44** The terms and conditions of the Business Incentives Program state that a contribution under \$100,000 may be made repayable if the proposed project has a high risk of failure at the outset but a commensurate opportunity to achieve a high rate of return; or if its nature is such that a non-repayable contribution would not be in the public interest; or if the applicant does not wish to receive a non-repayable contribution.

**21.45** Although the FedNor Secretariat attempted to make more use of repayable contributions, it rarely required contributions under \$100,000 to be

repayable. Between March 1992 and March 1995, 318 of the 346 contributions approved under the Business Incentives Program entailed authorized assistance of less than \$100,000 each, and only 17 of these contributions were made repayable. Further, the issue of repayment often was not discussed in project summaries for contributions under \$100,000.

**21.46** In the February 1995 federal Budget, the government announced that assistance to firms would be provided primarily through repayable loans. Since 1 April 1995, the FedNor Secretariat has required that all FedNor contributions to business be repayable.

## Monitoring of Projects and Performance Measurement

### Monitoring of project results needs to be improved

**21.47** Recipients of FedNor assistance are required to proceed diligently with their projects. The project start date and the completion or commercial production date are usually specified in the conditions of the contribution agreement. The commercial production date is the date on which a facility has been used for at least

30 days to produce marketable goods or provide marketable services.

**21.48** To ensure that the recipient's business continues to operate after commercial production has commenced, contribution agreements specify a control period of 12 to 24 months, beginning at the commercial production date. A final project report, based on a site visit, is prepared after the end of the control period.

**21.49** The nature of projects supported by FedNor varies, from marketing and quality management initiatives to expansion and modernization of facilities. However, existing guidelines do not assist FedNor officers in determining how to monitor project performance. FedNor officers did not treat all the projects in the same way. For example, they did not consistently conduct site visits to assess project results or complete final project reports.

**21.50** In addition, final project reports often did not adequately describe the results achieved by FedNor-assisted projects. Consequently, project files and final project reports often did not contain adequate performance information.

Although the FedNor Secretariat attempted to make more use of repayable contributions, it rarely required contributions under \$100,000 to be repayable.

Size of FedNor Assistance	Repayable Contributions		Non-repayable Assistance	
	Number of Projects	(\$000's)	Number of Projects	(\$000's)
Under \$100,000	17	1,198	723	26,871
\$100,000	5	500	12	1,200
Over \$100,000	40	16,502	29	7,831
<b>Total</b>	<b>62</b>	<b>18,200</b>	<b>764</b>	<b>35,902</b>

Exhibit 21.5

FedNor Repayable and Non-repayable Assistance to Projects

(June 1987 to March 1995)

Source: Industry Canada



The job creation and sales projections were usually overly optimistic when compared with the final results achieved.

The 1992 FedNor evaluation was of limited value in determining program results.

**21.51** One file indicated that FedNor officials suspected that a recipient had submitted questionable invoices. This had not been reported to the departmental co-ordinator responsible for further investigation into such matters. We brought this to the attention of management, who informed us that action is now being taken.

**21.52** FedNor should establish clear guidelines for monitoring project performance and for reporting project results in the final project report.

*Department's response: A new procedure added to the FedNor Monitoring and Payments Manual provides detailed instructions for officers to use in preparing final project reports. Reports will include specific information on the results of the projects such as level of sales, job creation and financial performance.*

**FedNor-supported projects often did not achieve projected results**

**21.53** The actual benefits achieved by FedNor-supported projects often fall short of the expected economic benefits indicated in project applications.

**21.54** The FedNor Secretariat maintains a system to capture program statistics such as number of projects authorized, amount of assistance authorized, eligible costs of projects, average assistance as a percentage of eligible costs, and jobs created or maintained. These data are based on information obtained mainly when an application for assistance is assessed and approved.

**21.55** The project summary includes the number of jobs to be created or maintained and projected incremental sales as indicators of the economic benefits that justify funding the proposed project. At the completion of the project,

FedNor officers prepare a final project report that indicates the number of jobs actually created and incremental sales actually achieved. The job creation and sales projections at the time of application were usually overly optimistic when compared with the final results achieved.

**21.56** Our analysis of 28 projects showed that half of them created fewer than the number of jobs projected. Of 23 completed projects where an increase in sales had been projected, 83 percent had lower sales than projected.

**Lack of an evaluation framework for the FedNor Business Incentives Program**

**21.57** In January 1992 the Department reported the results of an evaluation study of FedNor. The study attempted to address the achievement of objectives, program impact and effects as well as the cost effectiveness of operational delivery. However, we found deficiencies in the coverage of the questions addressed in the evaluation and in the quality of analyses undertaken. The evaluation was of limited value in determining program results, since it was conducted before many FedNor-assisted projects had been completed or fully developed and without the required information on project results.

**21.58** In March 1992, Treasury Board requested that Industry Canada prepare an evaluation framework to assess the performance, results and cost effectiveness of the renewed FedNor initiative within two years of the Business Incentives Program's becoming fully operational.

**21.59** As of 31 March 1995, the preparation of an evaluation framework for the FedNor Business Incentives Program was included in the Department's



1995–96 evaluation plan but had not yet been initiated.

**21.60** Industry Canada should complete an evaluation framework for the FedNor Business Incentives Program and begin collecting data under the framework as soon as possible.

*Department's response: The preparation of an evaluation framework for the FedNor Business Incentives Program is included in the Department's 1995–96 evaluation plan. The Auditor General's findings with respect to a previous evaluation of FedNor will be addressed in the evaluation framework.*

## Canada-Quebec Subsidiary Agreements on Industrial Development

### Observations and Recommendations

#### Management of Subsidiary Agreements

**A co-ordinated approach was adopted by the two governments**

**21.61** The subsidiary agreements were established to co-ordinate industrial development measures of the government of Quebec and the federal government. A Management Committee was established for the general administration and management of the two subsidiary agreements. This Committee is co-chaired by one senior officer from each government and has equal representation from both governments.

**21.62** The projects supported by the subsidiary agreements are in two main

categories: major industrial projects and municipal infrastructure projects.

**21.63** For a major industrial project, a team of project analysts from both governments is formed to analyze the proposed project against the selection criteria specified in the agreements. A lead project officer is assigned to each project and acts as the main contact with the applicant. A project recommendation and supporting analysis are required to be submitted to the Committee for its review and recommendation to the responsible ministers for approval.

**21.64** For a municipal infrastructure project, the Quebec government receives and analyzes the request for financial assistance and submits its recommendation to the Management Committee. The Management Committee reviews the submission and makes a recommendation to the ministers. Once financial assistance has been approved, the provincial government acts as the intermediary between the applicant and the Management Committee and ensures that work is carried out and funds are disbursed.

**21.65** The management process is designed to avoid duplication of effort. It was followed consistently and resulted in a streamlined approach. Management and project officers believe that the administrative process works well with good co-operation between the two levels of government.

#### Lack of established priorities or development plans

**21.66** The subsidiary agreements include broad objectives such as improving the competitiveness and vitality of the Quebec economy (see Exhibit 21.6). However, the subsidiary agreements also call for the setting of priorities and the preparation of

**A Management Committee was established for the general administration and management of the two subsidiary agreements.**

**The broad objectives of the subsidiary agreements were not translated into more specific development goals.**

**To qualify for assistance, major industrial projects must meet specific selection criteria.**

development plans to meet those objectives; in addition, proposed projects are to conform with these priorities.

**21.67** We observed that priorities and development plans were not established formally. Nor were the broad objectives of the subsidiary agreements translated into more specific development goals. However, management advised us that the objectives of the subsidiary agreements were considered to provide a sufficient basis to guide decision making and that they were used in making recommendations on specific projects. In our view, plans and priorities should have been articulated clearly to identify the types of projects that were to be supported. These plans would also provide a basis for assessing management's success in meeting priorities as part of their accountability to the Minister.

#### **Improvements required in documenting support for funding decisions**

**21.68 Major industrial projects.** Major industrial projects include capital

investment projects with more than \$10 million in eligible costs. Examples of the types of projects eligible for support are the establishment, expansion or modernization of a product manufacturing or advanced processing facility, an applied industrial research centre, an industrial laboratory or an industrial design centre.

**21.69** To qualify for assistance, major industrial projects must meet specific selection criteria. A project needs to demonstrate clearly the incrementality of the required assistance. The project must also meet the requirements of commercial viability and economic benefits for Canada and Quebec.

**21.70** On average, the federal assistance authorized for each major industrial project under the subsidiary agreements has been \$5.5 million. We expected to find a thorough analysis and a persuasive rationale to support the recommendation for funding approval.

**21.71** However, in the case of the two largest projects with approved federal contributions totalling \$105 million, we

#### **Exhibit 21.6**

##### **Objectives of the Canada-Quebec Subsidiary Agreements on Industrial Development**

The purpose of the Subsidiary Agreements is to promote co-ordination of the efforts of the governments of Canada and Quebec with a view to:

- stimulate the industrial development of Quebec and the growth of private industrial investment, especially to foster the realization of strategic industrial projects capable of improving the industrial base in Quebec, in particular those projects related to a better utilization of the actual comparative advantages;
- ensure expansion of its manufacturing sector in the industries of the future, especially in high-technology industries;
- support the establishment of applied research and development facilities;
- improve firms' competitiveness by introducing innovation and increasing utilization of new technologies;
- modernize plant and equipment in traditional sectors;
- promote access to new markets;
- improve the number of productive jobs and create permanent skilled jobs; and
- stimulate co-operation among industries.

**Source:** Industry Canada



found that very little analysis had been performed by departmental officials and reviewed by the Management Committee. Nevertheless, these two projects, like all other major industrial projects, were approved by the responsible ministers.

**21.72** In other cases, the files did not contain persuasive analysis of key issues, such as economic benefits and incrementality. For example, in one case the file indicated that the proposed project would help save 7,300 jobs but we did not find any analysis in sufficient depth to show that the jobs were in jeopardy. In another case, the rationale to support the contribution included a concern that the company might otherwise implement the project outside Canada. However, we saw no assessment or analysis of the company's alternative locations.

**21.73 Municipal infrastructure projects.** Infrastructure projects involve public water supply, sewer systems, road networks and other related facilities for an industrial project. The purpose of providing financial assistance to municipalities to implement such projects is to cover the cost of adequate infrastructure facilities needed by major industrial undertakings so that they can locate in a specific area.

**21.74** Financial assistance for infrastructure projects ranges from 50 to 90 percent of eligible project costs under the first subsidiary agreement and up to 80 percent under the second agreement.

**21.75** As of March 1995, all 76 funded infrastructure projects had been approved under the first subsidiary agreement, during the period 1985 to 1991. Authorized federal assistance totalled \$30 million.

**21.76** Eligibility and selection criteria outlined in the subsidiary agreements stipulate that no contribution may be

given for an infrastructure project if either government considers that the related industrial project will not benefit the economic interests of Canada and Quebec. However, the selection criteria for the first agreement, unlike the second, do not require municipalities to demonstrate that the infrastructure work cannot be done without financial assistance from government.

**21.77** Municipal infrastructure projects were often linked to industrial projects funded by other departmental programs. In our review of seven infrastructure projects, we noted a case where the rationale to support an infrastructure project was not clear. In this case, in November 1986 a federal contribution of \$1.85 million (later increased to \$2.2 million) was authorized to fund an infrastructure project. This project was to improve the water supply to a new fish plant that was already operating, near an established fish plant.

**21.78** The file information supporting the project application indicated that the new fish plant would cause the existing federally supported fish plant to close. Moreover, the 250 jobs to be created by the new plant would be offset by the closure of the existing plant with as many employees. As well, the project would not contribute to the economic benefit of Canada, since it went against a federal moratorium on increasing fish-processing capacity. Nevertheless, federal officials recommended the project for approval. The economic benefits supporting the recommendation were that it would rationalize the fishing industry in the region and enhance the image of the industry in Quebec by offering a product of high quality.

**21.79** However, there was no explanation as to why the possible benefits outweighed the other cost and

In a number of cases, files did not contain persuasive analysis of key issues, such as economic benefits and incrementality.

policy considerations. At the time when the decision was made to fund the infrastructure project, the existing plant had closed. In 1994 the new fish plant also closed.

**21.80** The Department should ensure that decisions to fund projects are supported by persuasive assessments in project files.

*Department's response: The Department understands the need to have complete documentation on file in support of project funding decisions, and shall continue to take the necessary steps on this matter. Moreover, since the Department resumed managing the Canada-Quebec Subsidiary Agreements in the fall of 1994, project officers have ensured that, before presentations are made to the approving authorities, each approval document is reviewed by a quality control group. This is done to ensure that it complies with the regulations and policies in effect, and that the arguments in support of the funding recommendations are sound and clear. This measure has already helped to improve the situation.*

**Repayable contributions are being used, with some exceptions**

**21.81** Since February 1990, the Treasury Board's policy on repayable contributions has required, subject to specific exemptions, that all contributions to business be repayable. Contribution arrangements that may be exempted include those with not-for-profit organizations, and those for projects undertaken within the framework of existing federal-provincial regional and economic development agreements and subsidiary agreements.

**21.82** The first subsidiary agreement provides for financial assistance in the form of repayable and non-repayable contributions. We found that all major industrial projects submitted after

February 1990 had been made repayable, except for one project with authorized assistance of \$2.25 million. All contributions to municipalities were made on a non-repayable basis.

**21.83** The terms and conditions of the second subsidiary agreement approved by Treasury Board call for the use of repayable contributions as a general rule. With the exception of a \$20 million payment to the provincial government (discussed in paragraph 21.88), all contributions made under the second subsidiary agreement have been repayable. In our view, this practice is consistent with the government objective to orient assistance programs more toward investing in economic development than subsidizing the private sector.

**21.84** We also observed, in the projects we examined, that the Department had recorded in its financial information system the information required for monitoring repayable contributions.

**An additional contribution of \$20 million under the second subsidiary agreement was treated as a compensation payment**

**21.85** The original term of the first subsidiary agreement was for five years, expiring in 1990; the term was extended to June 1991. No projects were approved by the federal government in 1991 while the decision on the second subsidiary agreement was being made. The second subsidiary agreement was signed in March 1992.

**21.86** The federal contribution limit of \$160 million, approved under the second subsidiary agreement, included an amount of \$20 million authorized by the Treasury Board in February 1992 as a payment to the Quebec government. This payment was for contributions Quebec had already made to major industrial projects before it

With the exception of a \$20 million payment to the provincial government, all contributions made under the second subsidiary agreement have been repayable.



entered into the second subsidiary agreement.

**21.87** The Treasury Board decision stated that the projects to which the payment was to be applied had to be eligible under the second subsidiary agreement and be subject to the same audit and evaluation processes as other projects. Departmental documents showed that one project was selected by the Management Committee as the eligible project for the \$20 million payment. The Quebec government had made contribution payments to this project totalling \$38.4 million.

**21.88** Management treated the \$20 million payment for the selected project as compensation to the Quebec government rather than as a contribution like the others under the subsidiary agreements. One of the consequences of treating the payment as compensation is that the contribution is not repayable to the federal government. The Department advised us that the contribution to the eligible project is repayable by the recipient to the Quebec government. As a result, if the recipient repays the \$38.4 million contribution in whole or in part, the Quebec government will receive reimbursement for its contribution, in addition to the \$20 million federal contribution. The federal government will receive nothing.

## Performance Information and Program Evaluation

### Lack of information on results achieved by individual projects

**21.89** The Department has some information on estimated results in its database, but we found that these are the same estimates used in the initial assessment of the project applications.

**21.90** Project officers assess the work in progress when reviewing claims for payment. However, information on the progress of the project and the results achieved was not consistently documented in project files.

**21.91** At the time of our audit, approximately 40 municipal infrastructure projects and 13 major industrial projects and related feasibility studies had been completed. However, there was no assessment that compared actual results of these projects with the initial estimates made at the time the projects were approved.

**21.92** The subsidiary agreements were administered by the Federal Office of Regional Development-Quebec (FORD-Q) from 1991 to 1994. Part III of the Estimates of FORD-Q for the fiscal years 1992–93 to 1994–95 contained limited information on the two subsidiary agreements. The information included a general description of the subsidiary agreements as well as details on budget, commitments, expenditures and number of projects approved. No information on program performance was presented.

### No evaluation of the subsidiary agreements has been conducted

**21.93** Each subsidiary agreement calls for an evaluation framework and the generation of data and information in order to undertake a comprehensive evaluation of the agreement.

**21.94** No evaluation framework was prepared for the second subsidiary agreement. However, an evaluation framework for the first subsidiary agreement was prepared in March 1987.

**21.95** We expected that data and information would be collected and reported on an ongoing basis under the evaluation framework, but we found no indication that this was done. The first

**The lack of appropriate performance information has limited the Department's ability to assess the program's performance.**

subsidiary agreement had an original term of five years, expiring in 1990. No evaluation was done before the term was extended, or before the second agreement was signed.

**21.96** The lack of appropriate performance information has limited the Department's ability to assess the program's performance. Important information on results achieved under the first subsidiary agreement was not available when the second agreement was being developed. In addition, the Department has not been able to provide Parliament with relevant and appropriate information on the program's effectiveness.

**21.97** Industry Canada should complete an evaluation of both of the Canada-Quebec Subsidiary Agreements on Industrial Development.

*Department's response: In September 1995, the federal and provincial members of the Management Committee responsible for the Subsidiary Agreements agreed to conduct a joint evaluation of the two Subsidiary Agreements. This will be done during 1996-97. Industry Canada will then be able to present the results of the combined evaluation of the Canada-Quebec Subsidiary Agreements on Industrial Development.*

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## **Conclusions**

**21.98** The two financial assistance programs that we audited represent part of the federal government's approach to dealing with regional economic disparity. FedNor is targeted toward small and medium-sized businesses in northern Ontario, and the subsidiary agreements support major industrial and municipal infrastructure projects in Quebec.

**21.99** FedNor makes a large number of smaller financial contributions. The process for assessing and monitoring projects can be improved by tailoring these processes to the nature and size of the projects. Opportunities also exist to improve co-ordination with other agencies to enhance the efficiency of program delivery.

**21.100** In the case of the Canada-Quebec subsidiary agreements, co-ordination with the provincial government appears to be working well. However, decisions to fund projects need to be supported by persuasive assessments in project files.

**21.101** Monitoring of performance and evaluation of results need to be improved for both programs.

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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

**Chapter 22**  
Human Resources Development  
Canada: Support for Training

**November 1995**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 22**  
Human Resources Development  
Canada: Support for Training



**November 1995**

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## Chapter 22

Human Resources Development  
Canada  
Support for Training

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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# Human Resources Development Canada

## Support for Training

Assistant Auditor General: Richard B. Fadden  
Responsible Auditor: Louis J. Lalonde

### Main Points

**22.1** Human Resources Development Canada (HRDC) supports training mainly by paying course costs and income support for trainees. Expenditures in these areas represented about \$2 billion for 1994–95.

**22.2** Labour market information is important to the effective implementation of the Department's training measures. We have identified only limited information on current demand/supply conditions in the labour market and on occupational shortages/skills gaps.

**22.3** The Department recognizes that improvements are necessary in its ongoing collection of data on training outcomes. These are needed to ensure that reliable information is available to systematically assess and report on performance.

**22.4** Over the years, the Department has relied quite extensively on the results of evaluation studies to track the effects of its training. The majority of the evaluations examined were of acceptable quality within their scope and have provided information the Department has used to improve the cost effectiveness of training measures.

**22.5** Recently, the Department has undertaken several pilot projects to improve the design and delivery of its programs. Especially with respect to projects that might be implemented nation-wide, it is important that evaluations be sufficiently rigorous and be based on adequate labour market information.

**22.6** To complete the emerging picture of the successes or failures resulting from training activities, several important issues need to be further addressed:

- the effectiveness of training activities in meeting the economy's skill needs — one of two key objectives set out in the *National Training Act*;
- the reasons for major differences in the cost effectiveness of training activities among HRDC's regions; and
- interprogram effects of training and other policy measures involving both the federal and provincial levels of government.

**22.7** The Department's evaluation studies demonstrate that training has the potential to produce, and has produced, an improvement in the employability and earnings of many of the workers. However, when training occurs in skills that are surplus to the needs of the economy, trainees' gains may be at the cost of displacing other workers from filling available jobs. This is a key area where the Department needs to undertake analyses and provide information.

**22.8** Targeting training activities at employment opportunities is important. This could assist Canadian workers, including the unemployed, to take full advantage of the job openings available. We are unable to determine from the information provided the extent to which this is occurring.

**22.9** The Department intended to put in place programs to address the needs of both individuals and the economy. We recognize that measuring the impact of training on the earnings and employment potential of individual workers is a valid concern. However, both objectives should be analyzed together and reported upon.



## Introduction

**22.10** Human Resources Development Canada (HRDC) is the federal department responsible for providing employment development services to thousands of Canadians. These services encompass programs to assist people in seeking, securing and maintaining employment.

**22.11** HRDC is not the only government entity involved in providing such services to Canadians. As noted in *Improving Social Security in Canada, Employment Development Services: A Supplementary Paper*:

Both levels of government (federal and provincial) have a stake in making the current system work better as a springboard to positive labour market outcomes for Canadians experiencing difficulties. The challenges that citizens face in adjusting to change and seeking opportunity do not fall neatly into one jurisdiction or another, and the solutions are to be found in partnership and co-operation...

**22.12** The programs that HRDC delivers are Employment and Insurance, Labour, Income Security, Social Development and Education, and Corporate Services. The focus of this audit is on the training measures delivered through Employment and Insurance.

**22.13** Training support is found mainly under the Employability Improvement and the Labour Market Adjustment subactivities. It focusses on individuals who have left the regular education system and covers training costs and income support for individuals undertaking the training. Course costs are paid through contribution agreements and transfer payments to provinces under Labour Force Development Arrangements. Exhibit 22.1 shows a

significant change in the relative proportions of income support and course costs between 1985–86 and 1993–94. As the Exhibit indicates, overall training expenditures have more than doubled over the eight-year period covered.

**22.14** It is the high level of expenditures in the areas of income support and course costs that prompted this audit, with the full understanding that major changes in HRDC's approach to training will likely occur as a result of the Department's review process. We have conducted the audit in the firm belief that quality of labour market information, planning and resource allocation, results measurement, and accountability for results will remain valid concerns, whatever particular approach to training is ultimately chosen by the government.

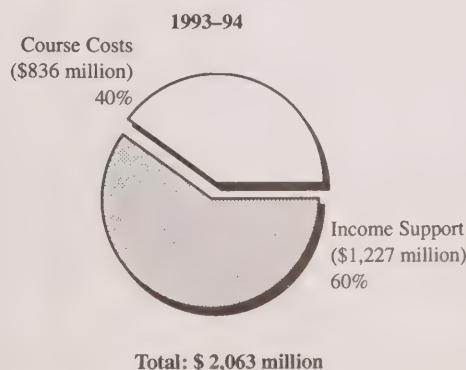
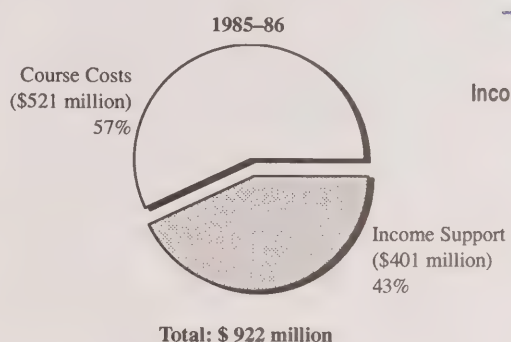


Exhibit 22.1

Income Support and Course Costs  
1985–86 and 1993–94

Source: HRDC

**22.15** Training expenditures are funded from two separate sources: the Developmental Uses of the Unemployment Insurance (UI) program, which is funded by UI premiums, and the Consolidated Revenue Fund, funded by general tax revenues and borrowing. Exhibit 22.2 shows the trend in training expenditures by funding sources from 1990–91 to 1993–94. Since 1990–91, use of the resources of the Unemployment Insurance Account has been expanded to assist in the re-employment of claimants.

**22.16** Over the years, HRDC (formerly Employment and Immigration Canada) has had primary responsibility for implementing the federal government's labour force development and training policies. Much of the Department's training activity has been focussed on recent labour market entrants and re-entrants, on providing occupational skills for unemployed workers, and on providing support to the development of skilled workers through apprenticeship.

**22.17** The majority of training clientele are enrolled under the Employability Improvement subactivity. The training is designed to assist workers with

employment problems to acquire skills with the aim of improving their employability. Some 320,000 trainee starts were recorded in this area in the 1993–94 fiscal year. The most recent available profile of trainees indicates that over 70 percent were either unemployed or out of the labour force before training. Approximately one quarter of the trainees had not completed high school. Trainees, on average, tended to be in their mid-30s; however, in certain types of training undertaken, there was a higher concentration of younger workers (under 25 years), ranging up to nearly one quarter of training clientele.

**22.18** Employability Improvement also covers federal government payments in support of provincial apprenticeship systems. Workplace-based training under Labour Market Adjustment assistance to employers is a small component of that activity, accounting for some 24,000 trainees in 1993–94. Such training is intended to respond to industrial adjustment problems related to market and technological change, and to alleviate skill shortages.

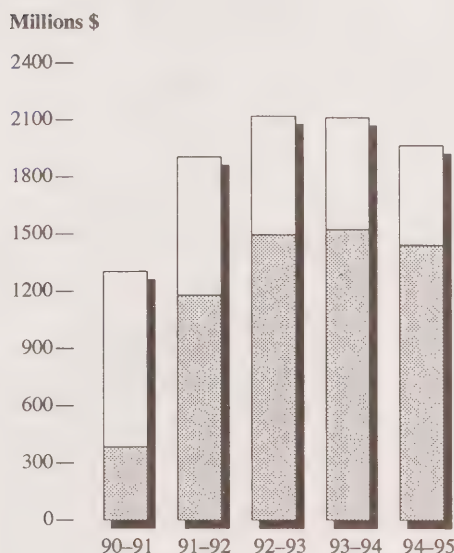
**22.19** The Department estimates the expansion and replacement needs for workers in the economy for the 1986 to 1991 period to have averaged approximately 360,000 a year, while annual trainee starts during the same period ranged from 230,000 to 380,000. Consequently, while the Department's training activities are but one of a number of sources of labour supply, such training nevertheless appears to have the potential to play a significant role as a source of trained workers for the labour market.

**22.20** In economic terms, education and training represent an investment in human capital at both the individual and society levels. The acquisition of skills enables Canadians to enhance their stream of future earnings by acquiring the ability to

Exhibit 22.2

Training Expenditures by Source of Funds – Canada 1990–91 to 1994–95

Consolidated Revenue Fund  
Unemployment Insurance Developmental Uses



Source: HRDC



perform a wider range of occupations, including those that are more highly paid.

**22.21** While a distinction is often made between education and training, it is somewhat blurred. The following definitions of education and training are taken from a report by the Task Force on Transition into Employment submitted to the Canadian Labour Force Development Board:

Education is the formal, initial acquisition of general knowledge and entry level skills by youth and adults. Training is the formal, further acquisition of skills required to meet the needs of a job.

**22.22** Both the Task Force and the former Economic Council of Canada have stated that education and training are integrated parts of a seamless continuum.

**22.23** We conducted our audit mindful of a number of key points that currently characterize Canadian labour markets and that have important implications for training. Among such points are the following:

- the growth in the economy's need for a skilled work force;
- concerns over levels of structural unemployment in Canada, caused, in part,

by a mismatch between occupational demand and supply;

- problems of functional illiteracy and high drop-out rates among secondary school students; and
- the underdevelopment of workplace training in Canadian industry in general.

In this context, with strictly constrained government spending, the need for cost effectiveness in federal support for training is greater than ever.

**22.24** By international standards, Canada ranks high among G-7 countries in the proportion of resources devoted to education and training. Exhibit 22.3 shows that 1992 public expenditures on education, as a percentage of Gross Domestic Product (GDP), are higher in Canada than in any other G-7 country. In labour market training, Canada's ratio of expenditures is higher than that of the United States, the United Kingdom, Japan and Italy, and in line with that of France.

## Legislative Base and Program Objectives

**22.25** Prior to the enactment in 1990 of section 26 (1) of the *Unemployment Insurance Act*, the principal authority for the Department's funding of occupational or vocational training was the *National Training Act*. Section 3 of the Act states:

Exhibit 22.3

Publicly Funded Education and Labour Market Training Expenditures:  
Canada versus Other G-7 Countries (as a percentage of GDP)

	Italy	Japan	U.S.A.	U.K.	Canada	France	Germany
All levels of education combined	1992 —	1992 3.6	1992 5.7	1992 4.1	1992 7.2	1992 5.1	1992 3.7
Labour market training for adults	1992 0.02	1992-93 0.03	1993-94 0.07	1993-94 0.14	1993-94 0.38	1992 0.39	1993 0.55

Source: OECD, *Employment Outlook*, July 1994; *Education at a Glance*, 1995.

The purpose of the Act is to establish a national program to provide occupational training for the labour force and thereby to better meet the need for skills created by a changing economy and to increase the earning and employment potential of individual workers.

**22.26** This Act provides the legal authority to: arrange for the enrolment of persons who are not UI claimants in training courses given by public authorities of the province or by private institutions; pay the cost of those courses to the provinces or institutions giving the courses; and pay certain allowances to persons who are not UI claimants but who

are enrolled in training courses. The *National Training Act* is but the latest in a long succession of federal legislative initiatives in this field dating back to early in this century; these initiatives are outlined chronologically in Exhibit 22.4.

**22.27** Section 26 (1) of the *Unemployment Insurance Act* provides a framework for the objectives of its training activities in terms of "...to facilitate the re-entry of a claimant into the employed labour force..."

**22.28** The *Unemployment Insurance Act* is a source of authority for various employment services and for many of the training initiatives and interventions under

#### Exhibit 22.4

##### Major Federal Training Initiatives

Year	Initiatives	Key Description/Changes
1913	<i>Agriculture Instruction Act</i>	Provided funding for occupational or vocational training (first legislation to do so explicitly).
1919	<i>Technical Education Act</i>	Promoted and assisted vocational, technical/industrial education (broader in scope).
1931	<i>Vocational Education Act</i>	Streamlined the assistance to vocational education.
1940	<i>Unemployment Insurance Act</i>	Brought matters of unemployment insurance and placement under federal jurisdiction.
1942	<i>Vocational Training Coordination Act</i>	Broadened the range of agreements with the provinces and provided a council to advise the federal government on matters related to vocational training.
1960	<i>Technical and Vocational Training Assistance Act</i>	Authorized a more generous share in capital cost of constructing, expanding and equipping technical and vocational schools.
1967	<i>Adult Occupation Training Act</i>	Expanded authority to purchase and pay the full cost of training courses and to pay allowances to trainees.
1982	<i>National Training Act</i>	Provided the government with expanded authority and provisions were made for extensive provincial consultation and/or concurrence.
1984	Canadian Jobs Strategy	Proposed a shift away from pure training (in the classroom) toward a combination of training and work experience.
1989	Labour Force Development Strategy	Restructured and consolidated employment programs and services.
1990	Bill C-21 (Amendment of the <i>Unemployment Insurance Act</i> )	Expanded the developmental uses of UI: more funds available for job training, job creation and work sharing.

the Department's Employment Programs and Services Framework. This authority does not empower the Department to establish courses or training programs. It is rather an authority for the payment of income support, course costs and supplementary allowances to UI claimants participating in an approved course or training program under section 26 of the Act.

**22.29** HRDC's two enabling statutes set out diverse objectives for training, but the training activities are delivered within a single operational structure and framework. In addition, a number of training programs are carried out under the authority of the Royal Prerogative.

**22.30** It is clear that through the enactment of the *National Training Act* and of section 26 (1) of the *Unemployment Insurance Act*, Parliament intended that programs be put in place that address the needs of both individuals and the economy.

## Audit Objectives and Scope

**22.31** The main objectives of our audit were:

- to provide Parliament with reasonable assurance that the Department had established satisfactory procedures to measure and report the effectiveness of its training programs, where such procedures could appropriately and reasonably be implemented; and
- to follow up on related recommendations made in Chapter 9 of our 1992 Report.

**22.32** As shown in Exhibit 22.5, our audit covered the training measures found mainly under two employment programs administered by the Department:

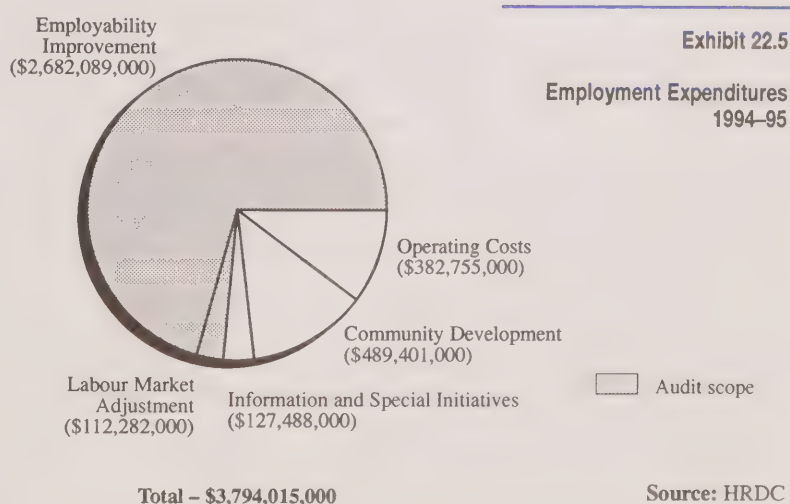
Employability Improvement and Labour Market Adjustment. We also reviewed labour market information activities.

Training activities represent approximately 70 percent of the Department's employment expenditures.

**22.33** Our follow-up on the recommendations made in Chapter 9 of our 1992 Report, "Employment — Monitoring Performance Against Expectations", excluded two recommendations. The first one involved the control of projects (paragraph 9.75) and the second dealt with community development (paragraph 9.98).

**22.34** We excluded from our scope the Labour Force Development agreements with the provinces and territories, as most have expired and will require renegotiation or replacement.

**22.35** The quantitative information used in this chapter has been drawn from the various sources indicated in the text. Where necessary to meet the requirements of the value-for-money audit framework, we undertook a detailed audit examination of the reliability of such information. Other quantitative information cited has been checked for reasonableness but was not subject to audit.





## Audit Observations

### Current Labour Market Information

**22.36** Labour market information is critical to thousands of Canadians making individual training, education and career decisions; to course and curriculum development; to public policy on labour market, social and economic matters; and to job search and investment decisions made by workers and companies. Users are from all walks of life, including workers, students, the unemployed, employers, educational and training institutions, and public policy and service agencies. Labour market information is mainly disseminated by Canada Employment Centres, generally at no cost to users.

**22.37** One distinguishing aspect of labour market information related to training is the importance of projections of future occupational demand and supply trends for the economy, the regions and industry sectors. These are important because the acquisition of skills involves significant investment of resources and can take several years.

**22.38** At the start of the 1980s, the federal government established the Canadian Occupational Projection System (COPS) to provide labour market forecasts. The System has been projecting information on occupational demand for over a decade. The potential applications of COPS in assisting in the development of Canada's human resources are very significant, and include educational planning, student and worker career counselling, as well as planning and implementing federal training activities. The Department is currently in the process of developing additional COPS information to include more

comprehensive projections of occupational supply adjustments, including the role of supplies of workers from abroad in meeting occupational demand.

**22.39** We examined the output of COPS in terms of areas covered, reliability of output and use made of projections in planning the Department's training activities. A number of international comparisons rank the quality and reliability of the Department's efforts in forecasting occupational demand as more or less comparable with those of other advanced industrial economies. However, it is clear that there are practical limitations on the accurate projection of occupational demands into the future, particularly for local areas. This, in turn, has placed limitations on the usefulness of the projections developed.

**22.40** We recognize that it is unrealistic to expect such forecasts to predict future occupational demands with a high level of accuracy. Labour market information systems necessary to implement training effectively involve more than projections of demand for occupational skills. COPS is only one of a number of key information elements. Other elements are needed to ensure reliability of information inputs and thereby assist in the planning of a country's human resource development measures.

**22.41** Exhibit 22.6 outlines our assessment of the important information elements needed in planning the Department's training activities. We have also identified the reasons why such data are important and assessed their availability.

**22.42** A departmental study identifies some information on the accuracy of COPS projections (see paragraph 22.39). We note that there does not appear to be an ongoing tracking system for COPS

The Canadian Occupational Projection System is only one of a number of key labour market information elements.



forecasts, to compare what has been forecast with what actually occurred, with causal analysis of variances between the two. To further improve COPS reliability, tracking of such information is important.

**22.43** We believe that the following points need to be addressed as part of the Department's future development of training-related labour market information systems:

- the future availability and accuracy of COPS projections at the regional level;
- comprehensive ongoing information on current occupational demand and

supply conditions in Canadian labour markets — nationally, regionally and locally;

- information on prevailing trends in skill shortages and gaps in the economy and their likely causes; and

- information from independent sources on training results achieved, available for planning purposes at the local level.

**22.44** The importance of labour market information to the effective implementation of HRDC's training measures is not in doubt; nor is there doubt about its importance to a wide array

## Exhibit 22.6

## Availability of Key Labour Market Information for Training Support

Labour Market Information Requirements	Reason	Level	Availability
Future occupational demand skill projections	Time and resource requirements to train workers necessitate an assessment of future demand trends.	National, regional, industry sector	<ul style="list-style-type: none"> <li>• Available nationally</li> <li>• Continued availability at other levels in question</li> <li>• Important qualitative information available from Department's sector studies</li> </ul>
Occupational supply adjustment projections	Supply adjustment forecast can help to assess need for departmental intervention.	As above	<ul style="list-style-type: none"> <li>• Being feasibility-tested at national level</li> </ul>
Current worker clientele needs/employer needs for training program assistance	Assess direct demand for training from the Department's clientele.	Local area	<ul style="list-style-type: none"> <li>• Available</li> </ul>
Ongoing tracking of current demand/supply conditions in labour markets (occupational surplus ratios)	Assess actual trends versus forecast (above).	National, regional, local area	<ul style="list-style-type: none"> <li>• Limited availability</li> <li>• Not used in a comprehensive way</li> </ul>
Ongoing tracking of occupational shortages/skills gaps and causal factors analysis	Assess actual trends where existing supply systems are not working.	As above	<ul style="list-style-type: none"> <li>• Limited data available</li> <li>• No comprehensive, consistent data system in place</li> </ul>
Ongoing results-based feedback information for Department's training programs: <ul style="list-style-type: none"> <li>• local employment outcomes</li> <li>• trainee mobility to other regions/areas</li> </ul>	Assess what worked/what didn't work for training as part of a planned response to all of the above.	As above	<ul style="list-style-type: none"> <li>• Not available on a timely, accurate basis</li> <li>• Pilot work under way</li> <li>• Post-training mobility information not available</li> </ul>

of stakeholders outside HRDC and the federal government.

**22.45 The Department should:**

- address the shortcomings identified in its current labour market information systems with respect to its training support activities;
- assess the costs and benefits involved in developing further the existing systems to meet the needs identified; and
- implement the necessary changes to improve the systems.

*Department's response: The Department understands and agrees with the Auditor General's emphasis on the importance of labour market information products for Canadians in general as well as for institutions pursuing an education or training policy. HRDC is already a significant producer and provider of quality information products, particularly in the areas of labour market, occupation and career information.*

*Steps have been taken to address many of the shortcomings that have been identified in the Report. For example, in the fall of 1994 the COPS team in Applied Research launched a major project designed to overhaul its methodology, models, process and products. The resulting revised COPS framework offers significantly better information on prospective occupational skill shortages and surpluses. In January 1996 the Department will release a fourth edition of "Job Futures", a leading labour market information product based on COPS information. Both COPS and "Job Futures" are major examples of information products being developed as part of the Human Resources Investment Fund.*

*Other initiatives have also been undertaken to provide ongoing tracking of current labour market conditions across occupations at the national level. It is planned to have a system in place in 1996.*

*In the future, labour market information systems such as COPS will explore the possibility of integrating the information on job vacancies from the Electronic Labour Exchange system and that collected by Human Resources Centres, using the tools provided by the National Labour Market Information system.*

## Results Measurement

**22.46** The deputy head of each department is accountable for ensuring that departmental policies and programs are accomplishing what was intended.

**22.47** Departments are also responsible for measuring the results achieved by their programs and for using the findings when making decisions on policy and program developments. Results feedback is also important for realizing management accountability within departments and for reporting to Parliament on results achieved from budgetary expenditures approved — as part of the stewardship framework for funds voted.

**22.48** The relevant Treasury Board guidelines note that reviewing the results of policies, programs and operations is the best option available to identify what works and what does not work, and, consequently, to take advantage of experience to improve the effectiveness and efficiency of government operations. Among other benefits, "information on results can help inform Canadians of the value obtained from their tax dollars, support decisions about resource allocation that contribute to controlling budget deficits, and enable public servants to focus on, and account for results".

**22.49** Keeping in mind that achieving intended results is a key component of performance, it must be recognized that performance is a multidimensional concept, and probably more so in the public sector than in the private sector.

Based on Treasury Board policy, government programs and operations are considered to perform well if they are relevant, successful and cost-effective.

**Ongoing feedback on cost effectiveness is lacking**

**22.50** Over the past years, the Department has delegated more responsibility to local managers and allowed them more flexibility to manage training activities. As managers and their staff are increasingly required to make decisions on training, they need more reliable and current information on the results of their activities. How well is the training that is being provided helping participants maintain employment or make the transition from unemployment to work, and at what cost? Answers to these questions are important if managers are to improve the cost effectiveness of training funds used and to account for results.

**22.51** We found that basic data on cost, number of participants and outcomes achieved are gathered, but not systematically used to assess and report on the results obtained. Managers thus lack important ongoing feedback on the results of training. The most important criterion used currently for managing program funds is whether funds are spent within one percent of budget. As a means of managing these programs, this criterion is useful but not sufficient.

**22.52** For many years, to measure results, the Department has been conducting national follow-up surveys three months after participation in employment programs. The results of those surveys are presented in the Department's Estimates Part III, to report on the effectiveness of employment programs. The two measures used are the impact rate (the percentage of valid

respondents who were either employed or in further training at the time of the survey) and the skill utilization rate (the percentage of employed respondents who were using skills acquired through employment programs). However, we observed that these results are seldom used by managers at the regional and local levels; the information is not considered to be timely and reliable in showing local results.

**22.53** The Department had planned to delegate the responsibility of the follow-up survey to the local level starting 1 April 1995. However, implementation of the plan has been delayed and, as a result, no systematic and consistent measure of outcomes is currently in place.

**22.54** Certain regions and Canada Employment Centres have attempted to address this information gap by conducting their own surveys and/or asking training institutions and sponsors to report on the placement rate of their students. These follow-ups are used mostly for contract performance and renewal purposes. They are not always co-ordinated or consistently applied; nor are the outcomes systematically analyzed for assessing and reporting results and for developing future local strategies. Furthermore, there is a risk that the feedback may not be objective since the follow-ups are not carried out by independent sources.

**22.55** To demonstrate the importance of knowing the cost effectiveness of training, we requested basic data by region on: training expenditures; number of participants; participant characteristics; and the outcomes achieved, such as the number of participants who found employment and the numbers finding training-related employment based on the national three-month follow-up surveys.



**22.56** Based on the data obtained, we calculated the cost per participant and the cost per participant who found training-related employment. The latter was determined by dividing the total training expenditures by the number of participants who found training-related employment. This illustrates one of many measures that could be used to analyze and report on the results achieved.

**22.57** Exhibit 22.7 shows a summary of the results of our analysis, by region, of the average cost per participant and cost per participant who found training-related employment for the period 1992 to 1994. We were unable to do the same analysis at the local level. This is because not all training costs are allocated to the Canada

Employment Centres responsible for the individuals receiving the training.

**22.58** It is important to note several limitations in the data used for our analysis. The reported costs do not include operating costs, such as for overhead and counselling, as they are not allocated to the training activities. The response rate to the three-month follow-up surveys for the period covered was 45 percent nationally and varied between 34 and 50 percent among regions. A non-response bias could have affected the final survey results to some extent. This factor has not been evaluated recently by the Department. Also, the relationship of the training received with actual work responsibilities is assessed by the participant and thus may bring subjectivity to the assessment. As

**Exhibit 22.7**

**Cost by Participant Who Found Training-Related Employment <sup>(1)</sup> 1992-93 to 1993-94 <sup>(2)</sup>**

Regions	New Participants	Cost by Participant (\$)	Participants Who Found Training-Related Employment	
			Percentage	Cost (\$)
Newfoundland	28,286	9,805	23.9%	40,965
Prince Edward Island	6,783	5,374	38.3%	14,022
Nova Scotia	22,790	7,533	37.5%	20,115
New Brunswick	33,832	6,028	42.4%	14,230
Quebec	119,847	8,974	44.5%	20,154
Ontario	186,140	6,341	42.2%	15,029
Manitoba	20,305	8,067	42.2%	19,112
Saskatchewan	17,287	8,034	44.2%	18,172
Alberta & NWT	57,818	5,950	44.1%	13,507
British Columbia & Yukon	73,209	7,029	50.4%	13,937
<b>TOTAL / WEIGHTED AVERAGE</b>	<b>566,297</b>	<b>7,252</b>	<b>43.8%</b>	<b>16,572</b>

<sup>(1)</sup> Project-based training and purchase of training

<sup>(2)</sup> See limitations in the data used for our analysis in paragraph 22.58

**Source:** HRDC three-month follow-up survey results and year-end final expenditures.



discussed in paragraph 22.71, data reliability problems may also have had an impact on our calculations.

**22.59** Our analysis indicates considerable regional variation in cost per participant and in cost per participant who found training-related employment, according to the training interventions used.

**22.60** We recognize that cost effectiveness can be expected to vary with local economic conditions. We do not wish to suggest that cost per participant should necessarily be equal across delivery areas. However, such information is essential to analyze factors that may have led to good or poor results and high or low cost when compared to goals and trends, or among delivery areas. An improvement in cost effectiveness of only one percent represents more than \$18 million in program costs.

**22.61** By carrying out such analyses, managers would be better equipped to choose the most cost-effective interventions to achieve success, given local labour market conditions and client characteristics. As a minimum, such information could usefully serve as a basis for effective questioning by managers of decisions made.

### **Measures for monitoring operational results are not fully implemented**

**22.62** We acknowledge that many of the decisions about the future of these programs are well beyond the control of departmental management. We have witnessed significant changes to the organizational and management structures in place to deliver these programs and services in the last decade. Furthermore, there has been discussion about these programs with the provinces.

**22.63** It is important for ongoing performance measurement to serve different levels of management by providing relevant, timely and reliable data for evaluation purposes and for strategic decision making and redirection, such as a change in spending approaches.

**22.64** For many years, the Department's performance indicators have been largely process- or volume-oriented. Such indicators do not provide managers with information needed to manage for results, nor do they promote accountability for results. Consequently, the Department decided, in 1992-93, to introduce new indicators for employment activities, aimed at measuring the self-sufficiency achieved by its clients.

**22.65** The implementation process is still under way. In Part III of the 1995-96 Estimates, the Department recognized the need to manage for results, requiring that it find what works for individuals and what gets them back to work in the most cost-effective fashion. The Department now reports that it is engaged in a comprehensive review and renewal of its performance measurement tools and practices. It expects to break new ground in the fields of performance measurement, management for results and development and dissemination of best practices.

**22.66** The proposed approach will monitor the self-sufficiency and employment status of clients using employment services. Goals are being set for counselling actions focussed on employability and thus tied to career decision making, skills enhancement, job search and employment maintenance. The Department intends to track the cost of these outcomes so that cost per success can be calculated.

**22.67** These outcome measurements were not yet in full operation at the time of our audit. If they are to be useful in

**The Department recognizes the need to manage for results.**

**Credible information is required to enhance accountability.**

monitoring and evaluating the use of resources, the Department will have to enhance its management information system and improve the reliability of its data.

**Data reliability problems have been recognized**

**22.68** The Department conducted a study in 1993 to determine the reliability of the information used by management and, where appropriate, to recommend action to improve the situation.

**22.69** The study concluded that data reliability problems existed in the majority of the Canada Employment Centres examined and that better data must be obtained. Among other things, the study recommended that areas of responsibility and accountability be clearly identified, that monitoring of data reliability become an integral part of everyday functions, and that standards be developed for employment performance indicators.

**22.70** In its 1995 *Strategic Information Plan*, the Department indicates that it has no global plan or standard for collecting data. The cost of collecting the data and disseminating the information is high due to duplication. Redundant capture of data results in variances in editing and data formats as well as most reliability problems emanating from the sharing of information between systems. These problems have resulted in, among other things, a lack of consistency in data quality and in the controls applied to the creation, maintenance and use of data.

**22.71** We are concerned about the reliability of the data. For example, we were unable to determine the training provided for more than 37 percent of trainees, since this information is not systematically recorded. Further, the number of participants is overestimated

since individuals taking more than one course are counted for each registration. We estimate that this double counting applies to 23 percent of participants. We also found errors and missing information in relation to data such as social insurance numbers, age and sex. Information on clients' profiles at this point is therefore questionable.

**22.72** To ensure that support for training is achieved in the most cost-effective manner, as recognized by the Department in its 1995-96 Estimates, Part III, improvements are necessary in the ways information on outcomes is gathered and assessed, information on costing is made available at all levels, and performance information is used to manage for results. Reliable information is essential if the Department is to achieve its goals.

**22.73 The Department should :**

- collect in an efficient way the necessary data on training outcomes and improve the reliability of its information; and
- enhance its management information systems so it can analyze and identify areas for improvement in cost effectiveness of training and account for results.

*Department's response: The Department has adopted the principle of managing on the basis of results. It is moving to implement a case management approach that is characterized, in part, by identifying and noting individual client skill needs, how these needs are met and at what cost, and their employment outcomes. To ensure optimum reliability of data, the information captured on each client (the case file) will be accessible to the client so that he or she can assess and ensure its accuracy. In addition, automated editing and analytical validation protocols will be developed at both the local and headquarters levels.*

*The validated data on intervention outcomes and the associated costs will be made available as a decision support tool for local and national managers and service providers in making individual investment decisions, in improving program design and in assessing program and intervention effectiveness.*

*Existing systems will be modified to support the approaches, which are consistent with the intent of the recommendations. New systems will be in place by 1997–98.*

*As well, we anticipated the importance of improved information gathering and dissemination and have devoted extensive effort in the last couple of years to increasing the integrity of the existing databases and, on a priority basis, developing a sophisticated client monitoring system that will enhance the collection of information on the outcomes of training and other departmental activities. Once fully tested in 1996 and mature, the system will not only provide more reliable data than have been available in the past, but will also facilitate the timely dissemination of information to all levels of the organization.*

### **National resource allocation models do not take account of results feedback**

**22.74** We examined the national and regional resource allocation procedures to determine the way available indicators of labour market needs and results achieved are used as inputs to the planning and budgetary resource allocation process for training.

**22.75** The Department's internal budgetary resource allocation approach is a multi-program, two-stage process. In stage one, budgetary resources are allocated at the national level to each region, not based on a single program

activity, such as training, but rather as a comprehensive approach covering all of the employment programs. Regions then have the authority to use resources in a flexible manner to meet local area priorities (stage two). Overall, the allocation approach is complex and involves a considerable range of labour market indicators. This appears unavoidable in view of the multi-program nature of the planning process.

**22.76** Our attention was drawn to a number of questions raised regarding the national resource allocation model (stage one). These questions should be considered as areas where there is likely to be scope for further improvements:

- Given that the model is the basis for allocating important levels of program resources, should it not also contain provision for feedback on results achieved as one of a number of factors used in determining future national resource allocations? At present it does not.

- We noted that the current resource allocation process gives a heavy weight to allocating budgets based on the importance of local unemployment conditions and much less weight to labour demand. In view of the evidence that positive outcomes, in the case of training, can be strongly influenced by the availability of jobs, should not more weight be placed upon this factor than is currently the case?

- We also noted that as the national resource models now operate, there is a duplication of indicators involving unemployment-related factors. Such duplication may be magnifying the importance of local unemployment conditions beyond their actual influence in the labour market. This may result in the allocation of resources to the regions with higher unemployment by as much as \$60 million annually.



Training that is well geared to assisting workers to obtain occupational skills in demand produces striking benefits.

**22.77 The Department should:**

- ensure that resource allocation models for training support give adequate recognition to the twin goals for training approved by Parliament — meeting the economy's skill needs as well as assisting individual workers; and
- incorporate feedback about program results achieved as a factor in its resource allocation models.

*Department's response: The new federal employment services will be based on the specific needs of local labour markets and of individuals who are eligible for federal support. The new legislation soon to be tabled will outline new goals and the Department's allocation model will support them. The management of the programs both locally and nationally will be based on how results address those needs. Local management will be empowered to allocate resources to the future Human Resources Investment Fund interventions that are achieving results.*

**Evaluations provide some guidance in designing programs**

**22.78** Program evaluation involves a more in-depth, longer-term (up to two years and more) tracking of the effects of training. With respect to HRDC's training support activities, the Department has regularly measured certain results achieved. The basic focus has been on improvements in the earnings and employability of the trainees assisted.

**22.79** We examined a total of 12 departmental evaluations related to training and undertaken during the period 1989 to 1995. Some of these evaluations covered earlier programs and/or approaches as they were evolving into present training activities. However, they are of importance to the present audit in showing lessons learned that the Department should take into account in future activities.

**22.80** By far, the majority of the evaluations we examined were based upon well-established technical approaches, involving a comparison of trainees and non-trainees, and yielded sound results from the measurement undertaken. This analytical framework is both reasonable and appropriate. However, in some cases, the coverage of the approach followed did not allow for an adequate assessment of certain training-related issues. Where we have particular concerns, we have identified them so that the Department's future evaluation activity may take them into account.

**22.81** The findings of the evaluation studies we examined provide a number of concrete illustrations of the potential for government-funded training to enhance the employability and earnings of individuals and, in certain contexts, to contribute to the economy's performance:

- Training that is well geared to assisting workers to obtain occupational skills in demand in the economy produces striking benefits, including improvements in economic growth and in Canada's competitiveness (evaluation of Training for Skill Shortages).

- The retraining of workers at risk of losing their jobs due to industrial adjustment can make a positive contribution to economic adaptation when it is realistically focussed (evaluation of Skill Investment Training).

- When strategically co-ordinated with income support measures, remedial education and skill development assistance for workers with unemployment problems help them become more employable and economically independent (evaluation of Training for Social Assistance Recipients; evaluation of Employability Improvement Training).

**22.82** By providing feedback on what works and what does not work in certain areas, program evaluations have provided



guidance for improving the effectiveness of training measures. Furthermore, the Department's program reviews undertaken as part of the Social Security Review build to a considerable extent upon the evaluation findings comparing trainees and non-trainees.

**22.83** For example, the Supplementary Paper on *Employment Development Services* identifies in detail what worked well and what worked poorly in assisting key groups of the Department's worker clientele experiencing employment problems — such as Social Assistance recipients, UI claimants, the severely employment-disadvantaged, youth and women. The analysis also outlines the strengths and weaknesses of the various program delivery approaches involved.

**22.84** The Department's evaluation findings indicated the importance of training in skills where there is a strong demand for qualified workers. Benefits to the economy can include reduced labour shortages faced by industry, expanded production and employment, and improved earnings.

**22.85** The Department's evaluations provide no evidence that training is automatically accompanied by new jobs where it adds to skills already in surplus. Where training increases the number of workers in occupations already in surplus, there is a risk that while individual trainees may benefit, the net gains overall may be significantly less.

**22.86** As a result, trainees' gains may be at the cost of displacing other workers. Some of the Department's evaluation material we examined acknowledges that displacement may be occurring. However, the Department has not actually measured to what extent this is the case. Training may be appropriate in terms of enabling workers to compete for the limited

number of jobs available, but the costs and effects involved need to be measured to the extent possible — to provide for up-to-date, informed decision making.

#### **Important cost-effectiveness issues need to be assessed**

**22.87** The evaluations noted identify certain areas where training has produced strongly positive results or has demonstrated a potential to do so. However, as a whole, the evaluations indicate mixed results and there are areas where significant cost-effectiveness concerns can be identified. Such concerns raise important value-for-money issues that need to be investigated further by the Department.

**22.88** Why does training produce clear employment benefits in some cases, and not in others? The most recently completed evaluation, the 1995 evaluation of Employability Improvement Training, indicates a significant improvement in the results produced by federal training efforts. Relative to a comparison group of non-trainees, significant improvements in employability and earnings were measured, with overall employability gains of up to 13 weeks annually and overall annual earning gains of up to \$5,200. These improvements stand in contrast with the findings from the Department's 1993 evaluation of UI-sponsored training activities where results were much less positive.

**22.89** The Department's most recent evaluation notes current efforts to streamline the training process (based on feedback on what works) and link it more closely with strengthened counselling efforts. However, it is not at present clear to what extent the improved results might also be the consequence of the recent economic conditions. The Department has begun an analysis of causal factors to try to clarify this issue. We commend the

**Why does training produce strongly positive results in some cases and not in others?**

**The Department's activities have not been evaluated in relation to helping meet the economy's skill needs in a number of key training areas.**

Department for such efforts to improve the performance of its programs. Further, we identify below additional key areas where there are cost-effectiveness issues involved.

**22.90** A special 1994 Training Outcomes Study, undertaken as a background to the Department's current review activity, indicates that much of the Department's training involves limited educational and skill upgrading for workers with lower skills and educational attainment. While the data used apply to the late 1980s, they indicate that, on average, training in the categories examined raised trainees' general educational levels from Grade 10 to Grade 11. Vocational preparation was largely focussed on providing basic entry-level skills. The evaluation of UI-sponsored training (1993) also confirms that much of the training is focussed on workers with lower skills who have been experiencing employment problems. The study does not examine the level of skill improvement produced.

**22.91** More up-to-date information is needed on skill improvements provided by training, along with information on the responsiveness of such training to industry's skill needs. We attempted to develop more recent data on the levels and types of skills acquired as a result of training. The Department's data system in this area is a long-established one, and, as a result, we expected to find accurate and reliable information produced on training activities. However, as noted in paragraph 22.71, we found that the coverage and reliability of information produced by this system was poor. Consequently, the data were not adequate to provide an accurate picture of the skill levels trained for.

**22.92** Regional differences account for some of the variations in employment effects resulting from training. The

Department's follow-up system has consistently indicated a number of regional differences in program effectiveness (see Exhibit 22.7). Yet evaluations have not addressed the cost-effectiveness questions these variations raise.

**22.93** Further, the Department has not evaluated adequately the effects of training relative to the needs of the local economy in areas where its expenditures are high. It has not, for instance, evaluated whether training in regions of higher unemployment is accompanied by a subsequent movement of trainees to areas where jobs are more plentiful. This is a particularly important question in view of the evidence noted on regional differences in program effectiveness.

**A key training objective has not been adequately evaluated**

**22.94** The Department has focussed its efforts on evaluating the effects of training activities in assisting workers with employment problems to improve their employability and earnings. Achieving improvements in employability and earnings is an important part of federal training objectives. However, there is a parallel objective related to meeting the skill needs of the economy. As noted in paragraphs 22.25 to 22.30, the legislative base for the training measures designed by the Department to implement its responsibilities for skill development originates in two pieces of enabling legislation (the *National Training Act* and the *Unemployment Insurance Act*), each having different objectives for training.

**22.95** In the case of the *UI Act*, the training objectives are less specific than those in the *National Training Act*. The UI objectives are identified in terms of facilitating "the re-entry of a claimant into the employed labour force". There is no specific mention of meeting the

economy's skill needs. As for the *National Training Act*, the purpose is two-fold: to provide occupational training for the labour force and thereby to better meet the need for skills created by a changing economy; and to increase the earnings and employment potential of individual workers.

**22.96** The Department has indicated that in implementing its training activities, it relied heavily on Treasury Board Terms and Conditions, focussing upon individuals who require employment assistance, with no reference to the needs of the economy. Further, in most instances, the Department's national planning documents make no reference to training to meet economic needs. Yet, in its 1995–96 Estimates, Part III, the Department states among its overall objectives:

...to develop and support the use of Canada's human resources in order to promote economic growth and the effective and efficient functioning of the labour market.

**22.97** Training activities in an important program have not been assessed in relation to meeting the economy's skill needs. For example, the Department's most recent evaluation covering training undertaken under the Employability Improvement program does not address this issue at all.

### **Lack of training as a barrier to job opportunities is a concern**

**22.98** The Department's 1991 evaluation of the Skill Shortages Program contains evidence that, in the recent past, Canada's economic expansion encountered worker shortages at a time when the unemployment rate ranged from 7.5 to 8.5 percent.

**22.99** In evaluating training, the Department surveyed employers regarding their experience with skill shortages during the 1988 to 1990 period. Employers reported extensive skill shortages, amounting on average to some 300,000 hard-to-fill vacancies annually, where additional supplies of qualified workers were required. The evaluation also found that the Department's training activities targeted at skill shortages covered about five percent of the shortages identified. Thus, there is a risk that the planning of the Department's training activities may not be adequately geared to responding to the economy's skill needs as these needs emerge.

**22.100** Based on the above-noted evaluation findings, there are grounds for concern that a lack of training in key areas may be producing a "braking effect" on jobs for the unemployed when the economy is expanding. Factors other than training may be involved in at least some of the skill shortages identified. Yet the Department's evaluations have not considered any such factors and have not determined the extent to which a "skills mismatch" contributes to the supply adjustment problem.

**22.101** More information and analysis are required in this respect so that the lessons learned can assist in making the planning of training activities more responsive to the economy's future skill needs. For example, a recent departmental report acknowledges that there is no systematic or comprehensive measure of skill shortages in Canada. Information is urgently required on the extent and occupational characteristics of such shortages and the causal factors involved.

### **22.102 The Department should:**

- obtain regular feedback on the effectiveness of training activities in



helping meet the need for skills created by a changing economy;

- more specifically, measure and report the effects of its training programs in helping meet the skill needs of the economy, and the effects of its support of training in surplus occupations; and

- examine skill levels of trainees before and after training and the effects of training on worker mobility in high unemployment regions.

*Department's response: Further to the Auditor General's recognition that HRDC's evaluation studies are reliable, useful and of quality, the Department intends to build on the strengths of the expertise it has developed in this area.*

*For example, some past evaluations have looked at the responsiveness of training to the skill needs of the economy. The primary vehicle for addressing economic requirements under the past programming configuration was the Skill Shortages program. The evaluation of Skill Shortages did examine this issue.*

*Greater coverage of more macro evaluation issues on training was planned but was delayed due to other priorities. The Department recognizes the importance of macro issues and has conducted macro evaluations over the past few years. The Department has plans to conduct macro evaluations of training programs in future.*

*In addition, the Department will examine the skill level of trainees and the effects of training on worker mobility in high unemployment regions.*

### Interprogram Linkages

**22.103** The measurement of interprogram effects can provide important information to assist in co-ordinating program activities. Such results measurement information is

essential to provide feedback on the success of existing co-ordination of programs as well as to provide indications on how to improve such co-ordination.

**22.104** In modern industrial states, very few programs operate in complete isolation. Reflecting this, the *Treasury Board Working Standards for the Evaluation of Programs in Federal Departments and Agencies* specifically refer to the need to measure the extent to which program activities may be working at cross-purposes with other programs.

**22.105** We noted in our 1992 Report that the Department's program evaluations had not been addressing important cross-linking issues among a range of government activities. These issues may be considerably influencing the success of the Department's programs (including training). In our 1992 Report, we identified two examples of areas that need to be considered in relation to the Department's human resource development activities: the impact of immigration and the impact of Canada's education systems on the functioning of the labour market.

**22.106** We recommended that the Department design evaluations to probe more fully the impact of these interprogram linkages on the success or failure of its activities. The Department concurred.

**22.107** We examined all the training evaluations undertaken by the Department during the period covered by our present audit for evidence that such interprogram effects had been measured. The Department has demonstrated little or no progress in this area with respect to its training activities.

**22.108** In addition to potentially important interprogram linkages with immigration and education, we identified



three other areas where program linkages are of concern: training in support of regional development activities; income support programs for workers receiving government assistance in skills development; and training supporting the objectives of federal science and technology initiatives and industrial development policies.

**22.109** We undertook a risk analysis of the consequences of the lack of results measurement concerning interprogram effects, based on existing information on program frameworks and labour market trends and effects. Our analysis included information on the experience of other countries where appropriate. The analysis of the risk factors involved assessing:

- the impacts that important labour supply sources as the secondary school system, federal labour market training activities, and supplies of workers from abroad are likely to have on the labour market in general, and where those impacts are likely to be reinforcing each other or working at cross-purposes;
- how these possible interprogram effects are currently being managed by the Department — based on its planning process and operational guidelines for implementing its training activities; and
- what the risks are that — without clear feedback on results by the Department regarding the above two points — the training may be less than fully cost-effective due to the need for improved co-ordination or improved program design.

**22.110** Exhibit 22.8 summarizes our findings regarding key risk factors. It indicates that there are significant risks that a lack of information on interprogram effects may be reducing the cost effectiveness of training managed by the Department. All five areas examined were assessed as having a significant risk

potential. It is not unreasonable for the Department to focus its activities on assisting individual workers, particularly those with employment problems. However, interprogram effects involving strategic co-ordination with other programs and levels of government require assessment as well.

**22.111** The Department should analyze and report on the interprogram effects of its training activities and the other programs identified.

*Department's response: Although the Department has made some important progress in the area of assessing the impact of interprogram linkages, more extensive examination of interprogram linkages, such as those identified by the Auditor General, and the relationship of training activities to labour market needs are among the macro issues that the Department intends to pursue.*

*The question of linkages between HRDC activities and education systems must be approached with discretion in view of the exclusive constitutional jurisdiction of the provinces in the field of education. HRDC has been working in partnership with provinces in several areas of evaluation including strategic initiatives and there may be potential to expand this approach in the area of interprogram linkages. Further examination of linkages with the education system will be jointly explored with the provinces.*

## Evaluating Experimental Initiatives

**22.112** In recent years, the Department has endeavoured to improve its strategies and frameworks in the design and delivery of labour market programming, including training activities, through a series of experimental initiatives. These initiatives were tried on a small scale and then evaluated before being considered for implementation on a wider basis.

The measurement of interprogram effects can provide important information on results.

## Exhibit 22.8

## Other Governments' Activities with Linkages to HRDC Training

Training-Linked Activities	Level of Government	Nature of Linkage with Training	Key Risk Assessment Factors
(1) Secondary Education/Vocational Preparation	Provincial	<ul style="list-style-type: none"> <li>A joint response to high school drop-outs/literacy problem is needed.</li> <li>25 percent of HRDC trainees did not complete high school.</li> </ul>	<ul style="list-style-type: none"> <li>Some evidence of joint strategic planning exists, but it is very general.</li> <li>HRDC does not measure results produced versus planning objectives.</li> </ul>
(2) Regional Economic Development	Federal/Provincial	<ul style="list-style-type: none"> <li>HRDC trains more strongly in certain high unemployment regions; less strongly in lower unemployment regions.</li> </ul>	<ul style="list-style-type: none"> <li>There is joint co-ordination of training plans at local level.</li> <li>HRDC national budget is allocated to regions based largely on regional unemployment rates.</li> <li>HRDC does not measure results from training in assisting regional development.</li> </ul>
(3) Trainee Income Support (Unemployment Insurance)	Federal	<ul style="list-style-type: none"> <li>Training can extend UI benefits from 52 weeks up to 156 weeks.</li> </ul>	<ul style="list-style-type: none"> <li>HRDC has not adequately measured possible abuse in use of training to extend UI beyond 52-week limit and the costs involved.</li> <li>Departmental documentation identifies possible risks involved.</li> </ul>
(4) Supplies of Workers from Abroad (Immigration/Visas)	Federal/Provincial	<ul style="list-style-type: none"> <li>Supply sources from abroad can adjust more rapidly than training.</li> <li>Experience in other countries where immigration is important indicates that in-industry training tends to be under-developed.</li> <li>From 1986–1991 immigrants accounted for 17 percent of the economy's labour needs.</li> </ul>	<ul style="list-style-type: none"> <li>In 1994, HRDC and Citizenship and Immigration established a structure to ensure policy coherence.</li> <li>There is a need to evaluate the economy's capacity to absorb workers from abroad in relation to the need to train Canadian labour force for available jobs.</li> <li>Structural unemployment in Canada is estimated in excess of 7 percent.</li> </ul>
(5) Science and Technology Initiatives and Industrial Development Policies	Federal	<ul style="list-style-type: none"> <li>These policies and related activities aim at a strategic approach to creating/maintaining economic growth and jobs.</li> <li>Training of the Canadian labour force is needed to fill the jobs created.</li> </ul>	<ul style="list-style-type: none"> <li>No evidence exists of comprehensive monitoring by HRDC of training activities in support of these policies and measuring results achieved.</li> <li>HRDC's Sector Studies are intended to encourage private sector-driven response to each sector's labour market problems but there is no comprehensive follow-up on results achieved.</li> </ul>

**22.113** The findings from such experimental initiatives can be particularly important when a major overhaul of program design is under consideration, as is presently the case

under the government's Social Security Review.

**22.114** The Strategic Initiatives Program was introduced in 1994 as part of the

federal Budget. Under this program, the federal government has committed some \$400 million toward strategic initiatives during the 1994–95 to 1998–99 period.

**22.115** The initiatives are intended to enable the federal government, in partnership with provincial/territorial governments (on a cost-shared basis) to experiment with new and emerging ideas on social security.

**22.116** As part of this audit, we examined a recently completed evaluation of the Student Work and Service Program in Newfoundland and Labrador. We selected this evaluation for examination because it provided feedback on the results of a possible new approach to funding human resource development activities through a system of redeemable vouchers, which could also be applied in the training area. In addition, the evaluation illustrates the importance of adequate labour market information.

**22.117** Our assessment of the quality of this evaluation (which was undertaken jointly by the federal and provincial governments under the technical approval of the Department) is that it was not sufficiently rigorous to support fully its positive conclusions regarding the cost effectiveness of the voucher system.

**22.118** This is because the evaluation was undertaken without the benefit of a comparison group of trainees who did not use vouchers — to identify clearly the results from the approach being tested. Further, as the evaluation notes, the usefulness of the occupational areas of study selected by voucher recipients could not be assessed “since no definitive analysis is available on occupations in demand in Newfoundland”. Not only does this finding raise an important issue that needs further evaluation as part of the voucher approach, it also highlights the

serious limitations of the Department’s own labour market information for the province.

**22.119** In addition to the above-noted evaluation, we examined the departmental evaluation of a developmental approach to delivering and implementing labour market services (including training) for displaced workers funded through HRDC’s Innovations program. The Canadian Steel Trades and Employment Congress (CSTEC) was established to deal with issues of trade, employment and adjustment in the steel sector.

**22.120** In examining the quality of the evaluation, we noted that the evaluation does not adequately cover the issue of why there was so much more worker retraining with CSTEC-assisted clients than in a group of similar workers using HRDC’s regular services.

**22.121** Further, the evaluation does not adequately consider an issue that has been identified as a possible problem in a number of other labour market adjustment situations in recent years. This issue is the possible misapplication of training as a means to extend income support for workers rather than to provide the longer-term employment benefits of skill development.

**22.122** In noting that these evaluations would benefit from further improvements, we do not attempt to draw any conclusions whatsoever regarding other evaluations of developmental initiatives currently under way. The Department is to be commended for following an innovative, experimental approach to program development. However, rigorous program evaluations and adequate labour market information need to be provided if the results are to contribute a useful input to future program design.

**It is important that evaluations of pilot projects be rigorous and be based on adequate labour market information.**



**22.123 Departmental evaluations of developmental initiatives should:**

- use the most reliable measurement methods possible; and
- address the full range of key evaluation issues.

*Department's response: During the design phase of each evaluation study, the Department prepares a plan for the evaluation that includes coverage of the relevant issues and reliable measurement methods. For the evaluations of strategic initiatives, the Department prepared a plan and shared it with its provincial partners. As these evaluations are conducted jointly with the relevant provincial departments, the Department will make every effort to ensure that the evaluation approach remains feasible, cost-effective, and acceptable to all parties.*

## Conclusion

**22.124** Because of the likelihood of change in the matters we chose to audit, we focussed on issues that will be relevant whatever approach to training is implemented. Thus, we have reviewed the quality of information about training programs that is available to various levels of management and to stakeholders, the availability and reliability of labour market information and the extent to which the Department has obtained appropriate results information and used it.

**22.125** In making our recommendations, we are conscious that bringing about improvements in an environment of policy renewal and operational uncertainty will not be easy. Indeed, to achieve better results and to use information relating to training and the labour market is a challenge in the best of times. But these

are not reasons for failing to act on the recommendations we have offered.

**22.126** The Department still lacks key information needed to plan its training activities despite efforts made over the past years. To improve its forecasting capabilities, it needs to compare its forecasts with what actually occurred and analyze the causes of variances. It is important that the national resource allocation models give adequate recognition to the twin goals for training approved by Parliament — meeting the economy's skill needs as well as assisting individual workers. In addition, there is scope to improve cost effectiveness by incorporating feedback on training results into the resource allocation process.

**22.127** Reliable labour market information is essential to ensure that training is directed at needs in the economy. The relevance of training activities to the needs of the economy strongly affects their results. Adequate information can actually save time and costs for everyone and enhance the quality of planning.

**22.128** Most evaluations examined were based upon well-established technical approaches. Evaluation studies have provided guidance for improving the effectiveness of training measures.

**22.129** There are areas where significant cost-effectiveness concerns are identifiable. Why does training produce clear employment benefits in some cases, and not in others? The Department has recently started to address this question. But the extent to which training programs are responding to the economy's occupational skill needs has not yet been evaluated.

**22.130** The measurement of interprogram effects is a matter that the Department is still not pursuing, despite



the fact that very few programs, especially in the social security area, operate in complete isolation.

**22.131** Considering the areas we examined, we are unable to assure Parliament that the Department's training activities have been adequately targeted at the existing employment opportunities, as the Department's results measurements have not adequately addressed this issue. In drawing this conclusion, we note that helping meet the needs of the economy is

only one of two objectives set by Parliament for the Department's training programs. The other objective — to increase the earnings and employment potential of individual workers — is an equally valid preoccupation of the Department. We urge the Department to analyze its results in meeting both objectives in order to be able to make a full accounting to Parliament for the use of the funds appropriated for training activities.

**The Department needs to analyze and report on both objectives of its training programs.**

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Report of the  
**Auditor General**  
of Canada  
to the House of Commons

**Chapter 23**  
Indian and Northern Affairs Canada;  
On-Reserve Capital Facilities and Maintenance

**November 1995**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 23**  
Indian and Northern Affairs Canada:  
On-Reserve Capital Facilities and Maintenance



**November 1995**

*This November 1995 Report comprises 12 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, October and November 1995 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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## **Chapter 23**

**Indian and Northern Affairs  
Canada**

**On-Reserve Capital Facilities and  
Maintenance**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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*Assistant Auditor General: Don Young*  
*Responsible Auditor: Nancy Cheng*

## Indian and Northern Affairs Canada

### On-Reserve Capital Facilities and Maintenance

#### Main Points

**23.1** The capital facilities and maintenance program activity of Indian and Northern Affairs Canada provides support for Indian and Inuit communities to acquire, operate and maintain basic non-residential facilities across Canada. Many of these communities have experienced rapid population growth, and there are serious backlogs in the provision of public services. The 1994–95 expenditure level of the activity, as shown in the Department's Part III of the Estimates, was about \$570 million.

**23.2** The authority for the activity is broad and general. The objective of the activity, as defined in the Department's Estimates and in its Long-Term Capital Plan, is not adequately supported by operational targets against which performance and results can be measured. As a result, the accountability framework for the activity is weak.

**23.3** Funding for the activity is first allocated to regions and subsequently distributed to First Nations by the regional and district offices of the Department. We found that the method for allocating funds to regions may not achieve the best match of scarce resources with areas of greatest need in First Nations communities. The basis and approach for allocating funds to the regions need to be reviewed and revised.

**23.4** In its approach to devolution, the Department has continued to transfer responsibilities to First Nations for delivering capital and maintenance projects. However, we found that the Department has not targeted and controlled areas of high risk. We noted that the Department's risk and exposure from failure to properly maintain capital assets are high. Moreover, many environmental issues still have to be resolved.

**23.5** In reporting results of the activity, the Department has provided some data on capital facilities and services on reserves but the data do not always present the full status of the conditions and are not related to the objective and targets of the activity. Furthermore, the Department does not have adequate information to assess the annual and the medium-term to long-term progress of the activity. Nor does it have the information to assess the extent to which the activity is addressing the overall objective of achieving parity between capital facilities and services on and off reserves.



## Introduction

### Nature of the Activity

**23.6** The on-reserve capital facilities and maintenance activity is an element of the Indian and Inuit Affairs Program administered by Indian and Northern Affairs Canada. It provides funding and support for Indian and Inuit communities to acquire, operate and maintain basic non-residential facilities across Canada. Generally, provincial and municipal governments are responsible for providing such facilities in communities other than those of the First Nations. Basic community facilities include schools, roads, community centres, water and sanitation systems, electrification, fire protection and other facilities. Residential facilities on reserves, primarily housing, are not included in the activity and are funded separately.

**23.7** Under this activity, the Department provides services to over 800 on-reserve communities, most of which are located in rural and remote areas. These communities typically have experienced rapid population growth, and there are serious backlogs in the provision of public services.

**23.8** The Department's 1994-95 Estimates provide for expenditures of about \$570 million for the activity. About two thirds of that amount is for acquiring capital assets and one third is for their operation and maintenance. Exhibit 23.1 shows the expenditure levels of the activity in recent years.

**23.9** The Department estimated the replacement value of the existing assets at nearly \$7 billion as of March 1994 (Exhibit 23.2).

**23.10** With authority from the *Indian Act* and by resolution from First Nations Councils, the Department also disburses certain band funds annually to operate and maintain capital facilities on their reserves. According to the Department, information on the level of these expenditures is not readily available.

### Administration and Delivery of the Activity

**23.11** As a result of downsizing in the Department since the mid-1980s, and in keeping with the devolution policy, there has been an increasing emphasis on having First Nations control the planning and implementation of various program activities on reserves. Consequently, there

**On-reserve communities typically have experienced rapid population growth, and there are serious backlogs in the provision of public services.**

Millions of Dollars

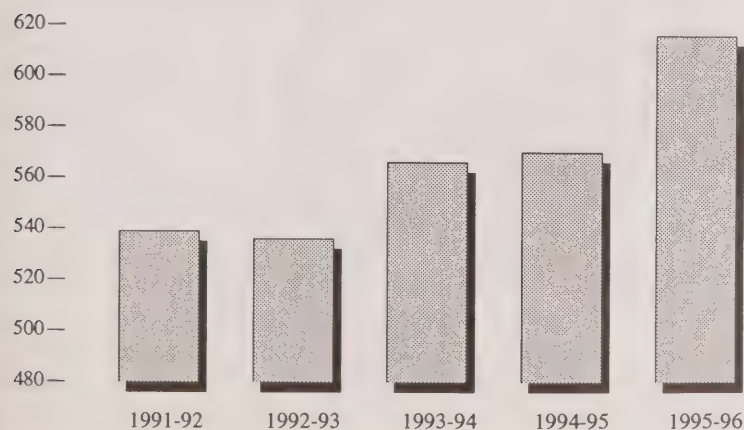


Exhibit 23.1

**Expenditure Levels of the Capital  
Facilities and Maintenance  
Activity in Recent Years**

**Source:** Part III of Estimates,  
Indian and Northern Affairs Canada

has been a continual transfer of responsibilities to First Nations and tribal councils for capital and maintenance projects, under funding arrangements with the Department.

**23.12** At present, the Department views its primary role as one of a funding agency. It establishes the funding levels available for individual projects and for the activity as a whole, and provides the funds under the terms of negotiated arrangements with the First Nations. The Department allocates the activity's funding to its regions and districts based on an established departmental framework. The regions and districts, in turn, allocate the funds to First Nations on the basis of need. Capital and maintenance projects are assigned different priorities for funding purposes. In general, priority is given to health and safety needs on reserves.

**23.13** Through special services arrangements with Public Works and Government Services Canada, the Department retains a technical capacity to provide advice and support to the projects it funds. It also operates an automated Capital Asset Management System, which

includes two sub-systems: Capital Asset Inventory System (CAIS) and Asset Condition Reporting System (ACRS). The Capital Asset Inventory System maintains a national inventory of completed capital assets. The Asset Condition Reporting System captures the physical condition of these assets.

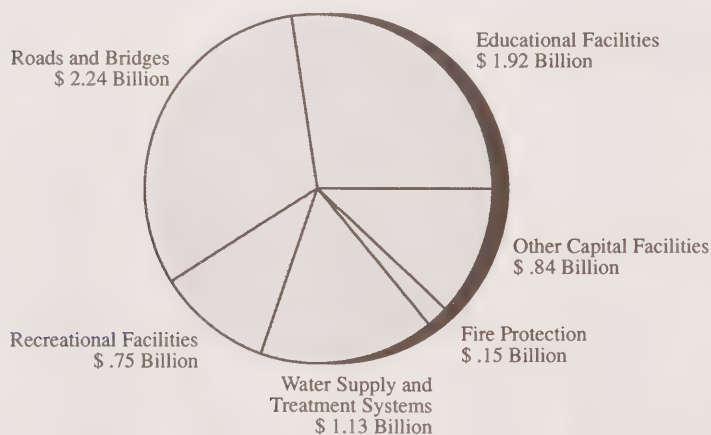
## Audit Scope and Objectives

**23.14** In recent years, among other Aboriginal issues and concerns, the federal government has acknowledged the need to improve living conditions on reserves. In light of the present climate of fiscal restraint, it has become increasingly important to ensure that limited funds are spent economically and efficiently, and in a manner that maximizes the effectiveness of the activity.

**23.15** We examined the funding and delivery of capital and maintenance projects on reserves to identify, where feasible, opportunities to improve the efficiency and effectiveness of the activity within the present level of funding. The audit was also conducted to promote better accountability for results.

Exhibit 23.2

Eligible Asset Types under the On-Reserve Capital Facilities and Maintenance Activity and Their Estimated Replacement Values



Total estimated replacement value as of March 1994 \$ 7 Billion

Source: Capital Asset Information System, Indian and Northern Affairs Canada



**23.16** We interviewed departmental staff and reviewed documents and reports at headquarters in the National Capital Region. We visited five regional offices that handle about 75 percent of the annual expenditures for capital infrastructure on reserves. We examined a sample of project files in these regional offices. We did not conduct any on-site visits to the projects. Our examination also did not include the Inuit component served by the two departmental regional offices in the North.

## Observations and Recommendations

### Identifying the Mandate and Objective of the Activity

**The objective of the activity is not adequately supported by operational targets against which performance can be measured**

**23.17** The *Indian Act* does not provide a specific mandate for all aspects of the capital facilities and maintenance activity. The activity has evolved over time as a result of government policy, not as a response to specific legislative requirements. The Department operates under the broad authorities provided through the *Department of Indian Affairs and Northern Development Act* and it derives the legislative authority for the activity from annual appropriation acts and Treasury Board authorities.

**23.18** The appropriation acts provide spending authority for on-reserve capital facilities and maintenance under two votes: Vote 10, for capital expenditures by the Department; and Vote 15, for grants and contributions. The wording in Vote 15, which provides the spending authority for almost all of the activity's

expenditures, is "the grants listed in the Estimates and contributions".

**23.19** The authority provided through the appropriation acts is general; and the vote wording does not provide an adequate basis for Parliament to hold the Department accountable for the expenditures made and the results produced in connection with the capital facilities and maintenance activity. Senior management, the Minister and, in turn, Parliament have to look to the activity's objective and to departmental policies as the basis and starting point for accountability.

**23.20** In its Part III of the 1994-95 Estimates, Indian and Northern Affairs Canada states that its capital facilities and maintenance activity "supports Indian and Inuit communities in acquiring and maintaining capital facilities and services consistent with recognized standards."

**23.21** In a 1991 submission to the Treasury Board and in its Long-Term Capital Plan, 1992-93 to 1996-97, the Department referred to the government's commitment to assist First Nations communities in achieving basic living conditions, availability of facilities and services and a general quality of life comparable with other Canadian communities. Further, the five-year capital plan proposed the development of a 10-year strategy around specific components of the capital facilities and maintenance activity that would permit First Nations communities to achieve equality with other Canadian communities with respect to those components. The specific components are water and sewage, fire protection and community electrification.

**23.22** Given the objective of the activity as set out in the Estimates and the capital plan, we would expect that the recognized standards with which

**The authority provided through the appropriation acts is general; and the vote wording does not provide an adequate basis for Parliament to hold the Department accountable for the expenditures made and the results produced in connection with the capital facilities and maintenance activity.**

Without establishing a basis for comparison, the Department will not be in a position to report whether conditions in First Nation communities are becoming comparable with other Canadian communities, even if its Levels of Service Standards have been met.

comparability is sought would be articulated in operational plans or departmental policy and procedure manuals. We would also expect that operational goals would be set so that the Department could measure and report on the progress in achieving parity with other Canadian communities. In particular, for the specific components noted in the capital plan, we would expect that progressive targets would be established so the Department could determine if the activity is being delivered as planned and if the objective of the 10-year strategy would be met, in accordance with available funding.

**23.23** The Department defined service standards in its program directives under the heading "Level of Service Standards (LOSS)". The LOSS standards were established for various components of the activity. Examples include standards for water and sewer systems, school site development, electrical power transmission and distribution systems, and roads and bridges. According to the Department, the standards are developed based on a review of those used in smaller communities across Canada, and are applied on a national basis. Some components, such as water and sewer systems and school space accommodation, were updated in 1993; others were established in 1988 or earlier. However, we were not able to find any departmental document that establishes its Level of Service Standards or any other basis as the benchmark against which to measure the achievement of parity with other Canadian communities. Without establishing a basis for comparison, the Department will not be in a position to report whether conditions in First Nation communities are becoming comparable with other Canadian communities, even if the LOSS standards have been met.

**23.24** We noted that, for water and sewer systems, fire protection facilities and electrification systems, the capital plan identified the targets to be met and the resources required to meet them. For each of these components, the capital plan identified the existing backlog and a target amount by which to reduce that backlog within a specified time frame.

**23.25** The targets were based on the backlog existing at the time. Although on-reserve population growth was considered in preparing the resource requirements, no specific targets were set to address the additional demands resulting from it. Moreover, operational targets have not been set for other components of the activity, such as roads and bridges and education facilities.

**23.26** Furthermore, we noted that the capital plan requested funding levels in excess of \$600 million annually for 1992-93 to 1996-97. For 1994-95, the Department had recommended a reference level of approximately \$670 million for capital facilities and maintenance on reserves. Its Part III of the Estimates provided for about \$570 million, some \$100 million less than the recommended reference level. Although the Department received significantly less funding than it had recommended, the capital plan and the related targets were not adjusted to reflect the shortfall.

**23.27** The Department's capital plan is an important document that provides a framework for the capital facilities and maintenance activity. It sets specific targets for certain components and identifies the time frame within which they can be met. However, it does not set targets for all major components and does not reflect current levels of funding. In our view, the capital plan does not form an adequate accountability framework for the activity.



**23.28** The Department should improve the setting of operational targets for all major components of the activity and revise the targets specified in the existing capital plan to reflect approved funding levels. In addition, the Department should establish the basis to be used as a benchmark to measure the activity's results in the long run against the objective of achieving parity for First Nations communities.

## Reviewing the Funding Allocation Framework

**The funding allocation framework for the capital facilities and maintenance activity**

**23.29** During the 1980s, funding allocations for the capital component of the activity were based primarily on a per capita formula. Funds were allocated from headquarters to the regions on the basis of on-reserve population, adjusted for projected growth and geographic remoteness of the reserves. The Department acknowledged that this method of allocating funds might not be the one that corresponded best to community needs in the First Nations. As a result, in 1989 it initiated a process to revise the funding allocation framework.

**23.30** First Nations community needs were compiled on a department-wide basis taking into account projected needs for the 10-year period ending in 2001. Technical staff of the Department provided cost estimates based on the projected needs. In 1990, the process established a reference point for allocating capital funding to the regions. Each year, the regions receive their proportionate share of the departmental budget for capital facilities, based on the cost estimates of the needs of the First Nations communities in each region.

**23.31** Capital projects are to be captured in the Department's Capital Asset Inventory System upon their completion. For purposes of funding the operation and maintenance component of the activity, the Department determines each region's gross funding requirement by using the database in CAIS and cost standards from a cost reference manual. Depending on the asset type, it discounts the gross funding requirement by up to 80 percent and provides the net amounts to the regions as funding for operations and maintenance, on the assumption that the communities or other participants will fund the balance. The basis of this funding policy is the Department's 1983 Operational and Funding Handbook.

**23.32** At the regional offices, or districts where applicable, projects from First Nations community capital plans are evaluated and prioritized annually based on established criteria. Five-year community plans are to be submitted each year by First Nations to identify needs on the reserves. The criteria involve type of asset and category of need to be met: specifically, health and safety needs, the requirement to maintain and preserve existing assets and the need to meet the Department's Level of Service Standards. Funding arrangements for the accepted projects are negotiated accordingly. Unfunded projects may be resubmitted in capital plans of subsequent years.

**23.33** Conditions in First Nations communities vary across Canada. Thus, we would expect the Department to consider options and to establish a funding allocation framework that best matches limited resources with the areas of greatest need on reserves. From our regional visits, we concluded that priorities and criteria focussing on community needs have been established and generally applied in selecting projects to be funded. However,

At the regional offices, or districts where applicable, projects from First Nations community capital plans are evaluated and prioritized annually based on established criteria.

as set out below, it is our view that the framework to allocate funds from headquarters to the regions needs to be improved.

**The basis of allocating funds to the regions for the capital component of the activity needs to be updated**

**23.34** The 1989 process establishing the proportion of funding to be allocated from headquarters to all regions for the capital component of the activity was a major attempt to align program spending with community needs. The funding percentages currently applied have been in place since 1990.

**23.35** At that time, the Department's analysis of community needs was based primarily on First Nations capital plans prepared in the mid- to late 1980s. Although forecast changes in the 1990s were taken into account in the analysis, it would be appropriate for the Department to validate assumptions and projected needs on reserves as time passes.

**23.36** In addition, the costs were estimated using costing standards for various types of assets. Although the costing standards are updated to account for inflation, technological changes and other developments could render some of the standards inappropriate. For example, in recent years there have been various developments in legislative requirements relating to the environment. The need to meet these requirements could affect the costing of many capital projects.

**There is a need to improve the method of allocating funds to the regions for operation and maintenance of on-reserve capital facilities**

**23.37** In a memorandum of understanding with the Treasury Board concerning long-term capital planning, the Department made a commitment to

establish a system that would capture the physical condition of capital assets it funded. This led to the development in 1991 of the Asset Condition Reporting System (ACRS), a sub-system of the Capital Asset Management System. In addition to identifying maintenance needs and helping to set priorities for major repairs and replacement, an objective of the system is to facilitate the forecasting of maintenance costs.

**23.38** The Department advised us that the ACRS is used in the regions in assessing maintenance projects. However, it was not used in determining the allocation of funds to the regions for maintenance purposes, and the cost reference manual applies standard costs regardless of the physical condition of the capital assets. Recent literature on maintenance of public buildings supports the view that life-cycle costing is an effective alternative to forecasting asset costs. The policy of applying standard costs as promulgated in a handbook dating back to 1983 needs to be reviewed and revised as appropriate.

**23.39** Moreover, we were unable to identify a documented basis for the discount factors applied to calculate the net funding to be allocated to the regions. Sometimes provinces, municipalities and private enterprises fund part of the operations and maintenance costs; sometimes the use of band funds is possible. The Department has not ascertained in over ten years whether discount factors of up to 80 percent are appropriate. Nor has it assessed the practicality of having the communities or other participants fund a proportionate share of the operations and maintenance costs.

**23.40** Furthermore, in 1993 the Department undertook a review of the 1983 Handbook. The review identified a



number of options and recommended an action plan calling for a new operations and maintenance guideline to replace the Handbook by March 1994. As of May 1995, the action plan had yet to be implemented. The Department advised us that this review had been overtaken by other priorities and there is no indication of when it might resume.

**Funds are allocated annually in one province for certain services that have also been financed through another program activity of the Department**

**23.41** During the audit, we noted that the funding arrangements between the Department and First Nations in one province covered certain daycare costs. In our 1994 audit of on-reserve social assistance, we noted that the Department reimburses that province for the same daycare services under the terms of a federal-provincial agreement dating back to 1965. In essence, funding has been provided under two different types of funding arrangements each year for the same purpose.

**23.42** We asked about the magnitude of the duplicate payments and were advised by the Department that costs relating to daycare services are not captured separately and are thus not available. However, it estimated that in 1994-95, approximately \$270,000 was allocated to First Nations in that province for daycare services through funding arrangements. Upon completion of our audit, the Department advised us that it had begun corrective action.

**23.43** In our opinion, the framework to allocate funding from headquarters to the regions and districts needs to be improved to better match resources with needs. We recognize the importance of simplicity and practicality in the method of allocating funds. However, without

updating the basis and approach of the funding allocation framework, the Department may not be best serving the First Nations communities that are in greatest need. Given that broad directions were set by the government's 1994 program review initiative, and that the climate of fiscal restraint will reduce funding availability while First Nations population growth will increase the demand for capital facilities, it may be an opportune time to revise the funding allocation framework for the activity.

**23.44** The Department should, in the near future, review and revise its framework for allocating funds to the regions, to ensure that funds are allocated to areas of greatest need.

**Assessing Risk Management in the Evolving Role of the Department**

**23.45** In the 1970s, project managers of the Department oversaw all aspects of on-reserve capital projects, largely without the involvement of First Nations communities. In the approach to devolution, First Nations have taken on increasing responsibility for delivering the capital facilities and maintenance activity on reserves. Today, with technical assistance and advice from tribal councils or other sources, including the Department, almost all First Nations identify their community needs and priorities, plan and design capital and maintenance projects and implement them.

**23.46** The Department views its role as primarily that of a funding agency. However, notwithstanding the approach to devolution, it continues to be responsible and accountable for the activity. Thus, we would expect the Department to target and control risks in ensuring that the projects

In our opinion, the framework to allocate funding from headquarters to the regions and districts needs to be improved to better match resources with needs.

**Notwithstanding the approach to devolution, the Department continues to be responsible and accountable for the activity.**

are properly planned, managed and implemented.

**The responsibility to deliver capital projects was transferred without due consideration of the communities' capacities to assume it**

**23.47** At the time when the Department was delivering capital and maintenance projects directly to First Nations communities, the services were generally provided through its technical group. In 1987 the technical group was transferred to Public Works Canada (now Public Works and Government Services Canada) and its services continue to be dedicated to the Department through special services arrangements.

**23.48** However, under devolution the role of the technical group has changed significantly. At present, the group no longer performs feasibility studies and needs analyses or manages capital and maintenance projects for First Nations. Indian and Northern Affairs Canada, instead of First Nations, has become its client and uses its technical advice and

support as the basis for approving project proposals submitted by First Nations.

**23.49** Successful delivery of capital and maintenance projects calls for the availability of expertise in technical matters, project management and financial management. We found that the Department transferred the responsibility for delivering the projects to First Nations without adequate assurance that the necessary expertise would be made available.

**23.50** Many First Nations seek assistance from tribal councils for technical services and project management expertise previously provided by the technical group at the Department. However, departmental reports show that some 100 First Nations, representing about one third of the on-reserve population, are not affiliated with tribal councils. Moreover, a 1993 internal review noted that many tribal councils were still in the process of establishing technical units and recruiting engineers. In Exhibit 23.3, a case example

**Exhibit 23.3**

**Case Example - Water Supply and Distribution System Not in Operation while Further Delay and Cost Overruns Were Anticipated**

This capital project involves the design and construction of a water supply system to provide the community with potable water and fire protection. It also includes the development of two subdivisions on the reserve, and of works relating to erosion control at three locations. The project was to be funded by the Department and the province in the amounts of \$2.2 million and \$1.5 million respectively, for a total of \$3.7 million. In the construction proposal, the First Nation acknowledged its lack of experience in managing major construction projects.

The construction of the water supply and related distribution systems started in the fall of 1991, for completion in 1992-93. In April 1993, the First Nation wrote to the Department, advising that it anticipated a funding shortfall of \$650,000. The First Nation attributed about \$380,000 of the expected overrun to mostly mismanagement and lack of proper financial monitoring and control. The Department assessed the situation and concurred that inexperience in managing a major construction project and inefficiencies in using the construction crews were the primary factors contributing to about \$380,000 of the cost overrun. In July 1993, the operations manager from the tribal council wrote to express his concern that, after spending 90 percent of the approved construction budget, the main objective for the project - the well, reservoir and pumphouse - could not yet be operated and the majority of the installed infrastructure was lying dormant.

In December 1994, departmental correspondence showed that the new water supply system had still not been commissioned and additional cost overruns were anticipated. When we visited the Department's district office in the spring of 1995, the project had yet to be completed.



we documented, we note that a key factor contributing to cost overruns and delays is mismanagement and a lack of experience in managing major construction projects.

**23.51** Further, the ability to manage financial matters varies among First Nations. About half of the First Nations are designated as AFA bands. The AFA (Alternative Funding Arrangement) is a type of funding arrangement that provides more flexibility and discretion to First Nations in delivering program services to members of their communities. Such arrangements are negotiated only if the First Nations opt for them and if the First Nations meet the Department's criteria for ability in financial management. Some First Nations opt out of AFAs, and some are ineligible as they fail to meet the Department's criteria. Some First Nations are operating under a Financial Management Plan. These Plans are called for by the Department when a First Nation exhibits weaknesses in financial management.

**23.52** Exhibit 23.4, another case example, describes a project in which some of the implementation funds were transferred in advance to a First Nation. Significant time has elapsed and the project design has yet to be finalized. The First Nation is operating under a Financial Management Plan.

**The Department is not fully exploiting the value of existing service arrangements with its technical group**

**23.53** Under the terms of special services arrangements, the technical group provides advice and support for certain projects and, in some circumstances, at the Department's request.

**23.54** For all major capital projects, departmental procedures require the technical group to review project

proposals submitted by First Nations. The reviews are conducted to ensure that the proposals meet minimum content requirements, including environmental assessments, project specifications and proposed costs. For capital projects that are designated as minor, the technical group is involved in reviewing project proposals only if the Department specifically requests the service. The group also reviews completion reports on both major and minor capital projects. Classifying a capital project as either major or minor helps the Department manage project risks, and the technical review can provide a source of assurance that the project will be delivered successfully.

**23.55** From our regional visits, we found that classification into major and minor capital projects varies significantly from region to region. In some regions, capital projects are classified as major if they exceed a certain dollar value. One region classifies as major capital projects all those over \$500,000; another sets the threshold value at \$1 million. In yet another region, capital projects are not classified as major or minor. One region determines the need for the technical group's involvement by the nature of the project.

**23.56** In our view, the Department needs to develop general guidelines to determine when to seek technical advice. Guidelines could address the dollar value that distinguishes a major from a minor project. They could also identify project types whose delivery is more prone to risk, and factors to consider in assessing management risk, such as knowledge and past experience of the First Nation managing the project.

**23.57** In addition, technical staff we interviewed indicated that their review of submissions often identified issues that

**Classifying a capital project as either major or minor helps the Department manage project risks, and the technical review can provide a source of assurance that the project will be delivered successfully.**

needed to be addressed before or during the implementation phase of the project. However, some of them also indicated that they did not receive feedback from the Department and were not certain how or whether their concerns had been addressed.

**23.58** From our review of project files, we noted several cases where project approval was given by the Department prior to the technical group's approval of the project design. In Exhibit 23.4, we note that the Department advanced about \$1 million on the basis of a design

#### Exhibit 23.4

**Case Example - Water Intake and Treatment Facility Has to Be Redesigned Three Years After the Commencement of the Project, while Funds Were Transferred in Advance of Need**

The objective of the capital project was to construct a water intake and treatment facility for the First Nation community.

In August 1992, the consultant engaged by the First Nation proposed using above-ground steel storage tanks for the water system. The technical group of the Department expressed concern about the proposed storage facility, a major component of the project, and recommended constructing an underground concrete reservoir as a more cost-effective alternative. According to the technical staff's analysis in December 1992, the underground reservoir as a component would cost \$990,000, whereas the above-ground storage tanks would cost \$1.6 million.

In April 1993, a second consulting firm provided the First Nation with additional cost estimates showing that the underground reservoir would save only about \$330,000, just over half of the cost savings estimated by the technical group. Subsequently, the First Nation's original consultant conducted a conceptual design review using the above-ground option and estimated the overall costs of the complete project to be about \$2.9 million.

The Department's technical staff expressed further concern that the cost estimate using the conceptual design was very close to the fixed maximum cost of \$3.1 million set by the Department, and indicated that strict project cost control would have to be employed during the design phase. In fall 1993, the Department advanced \$260,000 for the design of the project.

In fall 1994, subject to some outstanding items, the technical staff was satisfied that sufficient technical information had been submitted; effective project approval was granted for an overall project budget of \$3.2 million. Departmental correspondence during the approval process showed that the project budget of \$3.2 million was not to be exceeded. The Department entered into a 1994-95 contribution agreement with the First Nation for about \$780,000 for the construction to begin. Construction was to start in fall 1994 and be completed by fall 1995.

The Department released the full amount of \$780,000 in March 1995 under the contribution agreement, although construction had not yet started. The First Nation submitted a revised engineering cost statement to the Department for approval. The revised estimates totalled approximately \$4.7 million (including a risk contingency of \$600,000), an increase of \$1.5 million over the effective project approval given in fall 1994. The Department rejected the revised cost estimate on the basis that it well exceeded the original fixed maximum cost of \$3.1 million, and recommended a redesign of the water treatment project using the underground reservoir option.

As we completed our audit in May 1995, the Department advised us that it anticipates the redesign to be completed by January 1996 and construction to commence in summer 1996. We were also advised that of the \$1 million advanced to the First Nation for this project, about \$290,000 has been spent, including about \$260,000 on project design. We noted that the First Nation has been operating under a Financial Management Plan with the Department. Financial Management Plans are called for by the Department when a First Nation exhibits weaknesses in financial management.

Almost three years after the feasibility study, while the capital project is being redesigned, members of the First Nation community will have to wait at least another year to receive adequate potable water. The project proceeded despite concerns expressed by departmental technical staff from the start. Furthermore, approximately \$780,000 was released in advance of need.



proposal that the technical group had repeatedly cautioned against. Almost three years after the technical group's report, the Department rejected the original design proposal and requested that the project be redesigned.

**The Department needs to strengthen its role in ensuring proper delivery of capital and maintenance projects**

**23.59** In regions and districts, departmental program officers maintain informal contact with First Nations project managers to monitor the progress of capital projects. With increased devolution and departmental downsizing, it becomes more important for program officers to target their monitoring at capital projects that carry higher risks. One potential area of risk is cost overrun. However, we found that program officers do not always have information on how well the percentage of a project's budget spent to a given date corresponds to the percentage of the project completed to that date. Although some officers indicated that project status reports are submitted by First Nations, the status reports in files we reviewed generally addressed problem areas but not the progress of the project in relation to funds expended.

**23.60** We also observed that major capital projects in progress are not captured in the Capital Asset Inventory System (CAIS) and the Department does not have a comprehensive inventory of all on-reserve capital works. The CAIS is updated annually but includes only completed projects. Projects that are still in progress could be captured in CAIS, with an identifier to show that they have yet to be completed, or in a separate sub-system of the Capital Asset Management System. This would provide a national inventory of major capital assets both completed and in progress.

**23.61** Along with its commitment to develop a system to capture the physical condition of assets (paragraph 23.37), the Department committed to call for the development of maintenance plans and to require evidence of adherence to those plans. Certain funding arrangements with First Nations require that they prepare and submit to the Department maintenance plans that include a current inventory of all assets to be maintained, the quality standards to be applied to each asset, the frequency and type of work to be done and an estimate of the related annual costs.

**23.62** We found that in many cases, the Department has not received the required maintenance plans but has continued to provide funds for maintenance. The Department was also not able to provide assurance that the maintenance funds have been expended for their intended purpose, or that appropriate maintenance of capital infrastructure on reserves has been carried out.

**23.63** The risk of inadequate maintenance, and the Department's exposure to that risk, are significant. First Nations face many competing needs for funding and the incentive is present to divert funds to areas of need other than asset maintenance. The Department is ultimately responsible for the on-reserve capital infrastructure and assets and is exposed to the risk that the physical condition of its capital assets may deteriorate prematurely and require major repair and early recapitalization. As shown in Exhibit 23.2, the Department has estimated the replacement value of these on-reserve assets at nearly \$7 billion.

**23.64** The Department should take full advantage of the technical advice and support available from the technical group. In addition, the Department should strengthen its role in

**The Department was not able to provide assurance that the maintenance funds have been expended for their intended purpose, or that appropriate maintenance of capital infrastructure on reserves has been carried out.**

Our analysis of project files showed some areas of compliance but also identified areas where significant improvements are needed.

**ensuring proper delivery of projects and, in particular, ensuring that appropriate maintenance is carried out on reserves.**

### Analyzing Project Files

**23.65** During our regional visits, we reviewed over 40 projects. The projects were selected to include capital and maintenance projects that have been active within the last three years. Some of these projects have been completed; some are still in progress. The selection was also designed to include a variety of asset types, such as schools, water mains and treatment systems, warehouses and roads. Based on information contained in the departmental files, we estimated the total costs of the selected projects to exceed \$100 million.

**23.66** We would expect to find reasonable compliance with departmental policies and procedures to ensure proper planning, management and implementation of capital and maintenance projects. Such policies and procedures include the following:

- definition of needs, in accordance with the Department's Level of Service Standards;
- assessment of alternatives through options analysis and life-cycle costing;
- project monitoring and quality assurance; and
- evaluation of project results and reporting on project completion.

**23.67** The sample of projects was selected on a judgmental basis from the regions we visited. The results showed some areas of compliance but also identified areas where significant improvements are needed. The findings are not intended to be generalized to all projects in the Department. Our analysis of the results of the sample have been summarized in Exhibit 23.5.

**Significant improvement is needed to comply with departmental requirements in ensuring proper delivery of capital and maintenance projects**

**23.68** We noted that in most cases there were project implementation plans that outlined project milestones and funding

Exhibit 23.5

#### Summary of Our Analysis of Project Files

Project Management Criteria	Projects That Did Not Meet the Criteria	
	Total	Percentage
Analysis of Needs	14	35
Assessment of Alternatives	15	46
Documentation on Risk Assessment of First Nations to Manage Projects	28	82
Adequacy of Project Implementation Plan	5	16
Performance of Environmental Screening	1	3
Documentation of Appropriate Monitoring	15	47
Evaluation of Project Results	31	91
Filing of Project Completion Report	25	83

Note: Although we reviewed over 40 projects in total, not all criteria applied to each of these projects due to the nature or the stage of progress of the project.

schedules. Many included a monitoring regime and health and safety requirements. However, in general we found that significant improvement in meeting departmental requirements is needed to ensure good project management and delivery.

**23.69** For example, about one third of the projects we reviewed did not contain needs analyses that identified the user requirements the projects were to meet. In addition, for about 45 percent of the projects there was no evidence that options and alternatives had been assessed to ensure that user requirements and service standards would be met at the lowest cost.

**23.70** For example, one alternative to building or procuring a capital asset could be to lease or purchase the services that the capital asset would provide. From time to time, Municipal-Type Agreements (MTA) are used to purchase services for First Nations communities. The MTAs represent agreements between the Department or the First Nation and another party such as another federal government department, a provincial government, a municipality or other organization. Typical examples of services acquired under MTAs include water supply, waste removal and disposal, road and bridge maintenance, and firefighting services.

**23.71** At the time of our audit, departmental reports showed that MTAs covering about 500 sites were in place. Although the Department considers the MTA a potentially cost-effective service alternative, there is no requirement to consider it as an alternative to a capital project. In our sample, 24 projects were located in First Nations communities that could be considered as having proximity to service centres, but only about half of these files documented the consideration

of an MTA as an alternative to the capital project.

**23.72** About 45 percent of the project files we reviewed did not contain evidence of appropriate or ongoing monitoring by the Department. Aspects that were to be monitored included performance against service standards and health and safety requirements, funding holdbacks and inspection. Further, only about one fifth of the project files contained documentation on assessment of the risks entailed in First Nations management of the projects. The case example shown in Exhibit 23.3 illustrates the potential impact when that risk is not recognized and controlled in the course of planning and implementing a project.

**23.73** Exhibit 23.4, another case example, demonstrates that known risks in a capital project were not dealt with on a timely basis. As a result, funds were transferred in advance of need, and the project will have to be redesigned and service to the First Nations community delayed.

**23.74** Moreover, with the exception of one project in the sample, the files did not contain evaluations assessing the results of the projects. In addition, less than 20 percent of the files contained the project completion reports required by the Department. We noted that expenditure accounts are maintained through the use of funding arrangements. In cases where a number of projects are covered by a single funding arrangement or where projects take over one year to complete, there is no means to capture individual project costs. The files we reviewed showed that most projects have a time span of over two years, and the cost information of the individual projects is not readily available.

**23.75** In addition, although completed projects are entered into CAIS once a year, the submitted lists of these projects



are not supported by project completion reports. Since CAIS is the basis to calculate the proportion of funding for operations and maintenance in capital projects, there is a risk that maintenance funds could be allocated in advance of need, before a capital asset is fully completed.

**Many environmental issues still have to be resolved**

**23.76** Capital infrastructure development could have an adverse effect on the environment. Thus, in assessing the feasibility of capital projects, the Department requires that an environmental screening be completed. We did not audit the quality of the screening but our review of the sample of projects showed almost full compliance with the requirement to perform screening. However, we noted areas where environmental issues still have to be resolved.

**23.77** The *Indian Act* gives the Minister discretionary authority to proceed with certain environmental protection measures on reserves. Part IV of the *Canadian Environmental Protection Act* applies to federal departments and agencies, Crown

corporations and federal lands, including reserves or other Crown lands subject to the *Indian Act*. This Part of the *Canadian Environmental Protection Act* provides for the making of regulations to protect the environment. However, except for the Federal Mobile PCB Treatment and Destruction Regulations, no other regulations have been made under this Part.

**23.78** Areas of primary environmental risk and concern on reserves include above- and below-ground storage tanks, sewage treatment, and handling and disposal of effluent and waste. Exhibit 23.6 illustrates that untreated issues pose a significant environmental threat and that subsequent clean-up is costly and time-consuming.

**23.79** In January 1995, the Department testified before a standing committee of Parliament and acknowledged the regulatory gap under the *Canadian Environmental Protection Act* in connection with reserve lands. In the absence of relevant regulatory requirements, the Department reported that it had proceeded to develop an environmental management strategy. As we completed our audit in May 1995, we

**Exhibit 23.6**

**Case Example - Remedial Work Is Continuing Two Years After an Environmental Incident, Due to Failure to Act on a Timely Basis**

In 1977, the Department was requested to remove bunker oil that remained in fuel tanks in an abandoned cannery, which had become reserve land. In 1990, the First Nation notified the Department of its continued concern over the fuel tanks. A 1991 environmental impact report submitted by the First Nation reiterated concerns about potential hazards related to the oil in the tanks.

In April 1993, some 4,500 litres of heavy bunker "C" oil spilled from a tank that had fallen through the dock of the abandoned cannery. About 10 percent of the spill was contained quickly but the remaining 4,000 litres adhered to one-and-a-half kilometres of shoreline adjacent to the reserve. The clean-up was eventually completed. In July 1994, an assessment of other tanks in the abandoned cannery indicated that at least two other major hydrocarbon spills had occurred in the reserve over time.

Approximately \$1.6 million has been spent on the original spill. Further remediation work will be required to clean up soil contaminated by the subsequent leaks. A proposal with estimated costs of \$1 million has been submitted by the First Nation to remediate the site. Moreover, the impact on fish and other marine life has not been assessed. Timely action by the Department could have alleviated the problems.



noted that the environmental management strategy had yet to be finalized for implementation.

**23.80** In addition, the Department advised us that it started to develop an Environmental Issues Inventory and Remediation Plan in 1992, scheduled for completion by March 1997. The initiative to develop the Plan comprised four phases. Phases one and two consisted of searching available records and visiting reserves to obtain soil and water samples. The Department is engaging in the third phase, in-depth testing to determine the extent of contamination and the need for remedial or follow-up action. We were advised that the costs of remediation will not be known until after this phase. However, over 1,600 environmental issues have so far been identified on inhabited reserves, and remediation would involve millions of dollars.

**23.81** Further, we noted that the Department entered into a memorandum of understanding in 1984 with other federal government departments to define their respective roles and responsibilities with respect to environmental and other concerns in providing capital facilities on reserves. The memorandum has remained inactive for some time. Correspondence from May 1994 showed that the Department had started to seek input to assess the applicability of the memorandum. However, as we completed our audit, the memorandum of understanding remains to be updated.

**23.82** In summary, our review of case files indicated that there is significant room for improvement in the Department's oversight of the delivery of capital projects. In addition, many environmental issues still have to be resolved.

**23.83** The Department should review and confirm areas where compliance with departmental requirements in the planning, implementation and evaluation of capital projects is weak, and take action to ensure more efficient and effective project delivery. Further, the Department needs to adhere to its schedule in identifying and addressing environmental concerns, including working with other departments to address the regulatory gap and other environmental responsibilities.

### Examining Accountability for Results

Departmental reporting provided some data but the data do not always present the full status of capital facilities and services on reserves

**23.84** In recent Part IIIs of its Estimates, the Department reported data on the availability of water and sewer services for houses and educational facilities on reserves. These data showed general progress over a five-year period. For example, in 1993-94, about 675,000 square metres of educational facilities became available on reserves, an increase of almost 25 percent over 1989-90.

**23.85** However, progress in the activity as reported in the Part IIIs of the Estimates was not related to specific targets set out by the Department in its Long-Term Capital Plan. Data on progress in priority areas such as electrification systems and fire protection services were not tabulated. Nor was the information on water and sewer systems or fire protection services analyzed against the targets for reducing backlogs.

**23.86** Fire protection services are considered a priority area in the activity because the services affect the safety of communities. This is also an important

Over 1,600 environmental issues have so far been identified on inhabited reserves, and remediation would involve millions of dollars.

Progress in the activity as reported in the Part IIIs of the Estimates was not related to specific targets set out by the Department in its Long-Term Capital Plan.

area because of the high rates of death from fire on reserves. A report on fire losses in Canada showed that the 10-year average fatality rate on reserves from 1983 to 1992 is over three times higher than the Canadian average for the same period.

**23.87** The 1992-93 to 1996-97 Long-Term Capital Plan showed that about 150 sites with more than 10 houses each did not have adequate fire protection services. According to the data reflected in the Plan that was prepared in 1991, about 75 percent of these sites had adequate fire protection services at that time. The 1995-96 Part III shows that only 56 percent of the First Nations communities had adequate services in March 1994.

**23.88** The Department advised us that the definitions for adequacy of fire protection services were changed in 1992-93. Had it included the data relating to the new category introduced at that time, the 56 percent would have been restated at 80 percent. This change in definitions was not explained in the Part IIIs. In addition, without a comparable basis for the data compiled using the previous definitions, the Department is not in a position to assess the progress, if any, that has been made in the provision of fire protection services.

**23.89** Moreover, we noted that the new category includes fire protection services that have not been verified through site survey by a specialist and those that do not meet the Department's LOSS standards or have arrangements for the provision of required materials and staff. With the exception of one regional report relating fire loss to inadequacy of capital infrastructure, there is no information on how the Department's capital facilities

and maintenance activity is affecting fire protection on reserves.

**23.90** The data in the Part IIIs showed that about 92 percent of houses on reserves received adequate water services in 1993-94 (86 percent in 1989-90). However, a survey report released after our audit showed that only half of the water systems in First Nations communities are not experiencing problems and about one fifth of the systems pose potential health and safety concerns. The information disclosed in Part III of the Estimates does not always present fully the status of conditions on reserves.

**Inadequate analysis of the activity's information limits the Department's ability to account for results**

**23.91** We would expect the Department to have adequate information on the effects of funds spent on the capital facilities and maintenance activity, to account for results in achieving the activity's objective. The primary source of the Department's information on the activity is the computerized Capital Asset Management System. The CAIS and the ACRS are two sub-systems that contain data on the national inventory of completed capital assets on reserves and on the physical condition of those assets.

**23.92** We have noted that the national inventory is not complete because major capital projects in progress are not captured (paragraph 23.60). Failing to recognize projects and works in progress understates what has been achieved in advancing toward operational targets. In addition, information on the physical condition of assets was to be obtained and included in ACRS over a five-year period. As of May 1995, the process had not been completed. According to the Department, in December 1994 the percentage of assets



whose condition was reported ranged from 25 percent for electrical streetlights to 91 percent for bridges.

**23.93** We were advised by the Department that the Capital Asset Management System has the capacity to provide various reports required to monitor progress toward targets established in the capital plan. However, we did not find departmental reports that would identify and summarize the annual progress of the capital facilities and maintenance activity against the capital plan. Although the authorized funding fell short of the Department's request in the plan by some \$100 million, there was no departmental analysis supporting whether and how the targets were to be revised. Consequently, the Department does not have adequate information to assess whether the results of the activity correspond annually to the targets, or to account to Parliament for those results.

**23.94** The capital plan also referred to a 10-year strategy to completely eliminate backlogs. Since 1992-93, when the period covered by the capital plan began, there have been no systematic departmental reports analyzing how the projected demands and rate of acquisition of capital facilities relate to the actual situation. As a result, the Department does not have the information to determine whether or to what extent the backlogs will be eliminated after 10 years. Such information could help the Department to assess whether alternative action within the five-year period is warranted. It would also form the basis for the Department to adjust the 10-year target if necessary, and the basis for reporting to Parliament.

**23.95** With the exception of the survey report on water and sewer systems, there are no analyses to assess the conditions on reserves and how they compare with the Department's LOSS standards or any other

basis relative to conditions in other Canadian communities. Without such information, compiled periodically, the Department is not in a position to conduct capital planning in the context of its overall objective of achieving parity. In addition, the Department will not be able to inform Parliament of the progress accomplished at the end of five years and after total expenditures of around \$3 billion, particularly whether the gap in parity is widening or narrowing and to what extent.

**23.96** In our opinion, to account for results of the activity, the Department needs to have information to measure progress annually and in the medium and long terms. It needs to conduct periodic analyses to assess the gap between First Nations and an established basis for comparison with other Canadian communities to address the overall objective of achieving parity.

**23.97** The Department should maintain an inventory of all major capital assets on reserves, including projects in progress. It should analyze information to measure and report progress in the capital facilities and maintenance activity toward annual and medium-term to long-term goals. In addition, the Department should conduct periodic analyses to compare conditions in First Nations with an established basis for the purpose of capital planning and for reporting to Parliament.

## Conclusion

**23.98** Needs and conditions vary among the communities of over 600 First Nations. The funding allocation framework for capital facilities and maintenance is an important tool to match resources with community needs. We found that the allocation of funds to the

**The Department needs to conduct periodic analyses to assess the gap between First Nations and an established basis for comparison with other Canadian communities to address the overall objective of achieving parity.**

regions does not necessarily correspond to the greatest present-day needs on reserves. With the completion of the government's program review and the fiscal climate restricting growth, it may be an opportune time for the Department to revise and update its funding allocation framework.

**23.99** In its approach to devolution, the Department has continued to transfer the responsibility for planning, implementing and evaluating capital projects to First Nations. However, not all First Nations have the same capacity to deliver capital projects. Although some are supported by the technical units of tribal councils, many do not have the benefit of this support. As the Department has reduced its involvement in delivering the services while retaining overall responsibility for the activity, risk management becomes paramount. We found that the Department has not adequately addressed the risk by focussing on First Nations that require technical or management assistance.

**23.100** In addition, an area of high exposure to risk is the maintenance component of the activity. We noted that maintenance plans, although called for by the Department, are not always submitted by First Nations. Funding arrangements are generally negotiated to cover a number of capital and maintenance projects and there is no separate costing of individual projects. Consequently, there is a risk that necessary maintenance work may be neglected. The Department is ultimately responsible for the capital assets and the provision of basic infrastructure on reserves. The estimated replacement costs of the existing capital assets are approaching \$7 billion, and the Department's exposure to the risk of premature recapitalization could be substantial.

**23.101** The objective of the capital facilities and maintenance activity is not

adequately supported by operational targets against which progress can be measured. Further, the Department's reporting on results of the activity needs to be improved. In our view, the Department needs to analyze information on the activity to account for progress annually and in the medium and long terms, in the context of the overall objective to achieve parity between capital facilities and services on and off reserves.

***Department's response:** Following the devolution of responsibility for the delivery of the capital facilities and maintenance activity to First Nations, the Department has been working in a number of areas to ensure that limited capital resources are used effectively. It is supporting the development of First Nations capacity through the funding of training and assistance through tribal councils. It has developed information systems to track major capital assets and their condition and is working to improve the quality and timeliness of the data and reports.*

*Standards for the majority of new capital facilities have been updated, and significant progress has been achieved in strengthening the monitoring of funding agreements and audits to improve accountability. Procedures have been put in place to enable First Nations to work with regional offices to identify those projects that meet the priority concerns of health, safety and the preservation of assets in good working order, as well as assist them to access appropriate information and technology.*

*Progress has been made, to the extent that available resources allow, to bring First Nations community assets up to the standard of other communities but much more remains to be done.*

*The primary focus of the capital facilities and maintenance activity is to meet the immediate infrastructure needs of First Nations communities within available*



resources. This means that priority must be given to health and safety concerns that have been identified by the regional offices working directly with First Nations. To the extent that it is relevant to this focus, the Department will review the targets established in the Long-Term Capital Plan and enhance the monitoring of the progress being made. Work on the updating of the Level of Service Standards is being completed as part of maintaining a benchmark to ensure that new capital facilities in First Nations communities meet reasonable standards comparable to those in other Canadian communities.

The needs of First Nations communities are constantly shifting, as they are in any other community, to respond to such factors as changing priorities, population increases and new housing construction.

The current framework for allocations to the regions is based in part on identified needs and in part on population. The resulting stability in allocations allows the regions to work with greater certainty with First Nations to determine how community priorities will be met, and avoids adverse reaction when a region already experiencing a significant backlog receives a reduced allocation. As the overall capital resources are inadequate to meet the current demand, any reallocation will have little impact on meeting the total requirements of First Nations communities. The Department will, however, reconsider the methodology used in the allocation of capital funds to the regions.

The devolution of responsibility for the construction and maintenance of capital facilities to First Nations has required the Department to change its role and the way in which it works with First Nations, a process which is ongoing. At the same time as First Nations are becoming directly responsible for the delivery of services, the Department is refocussing its activities on the need to ensure that projects are properly delivered and facilities properly maintained. The Department will therefore continue to review its activities to ensure that available resources are used more effectively to assess risk and monitor the implementation of capital projects and maintenance plans.

As part of its major emphasis on accountability, the Department is reviewing its procedures for monitoring the implementation of capital projects and maintenance activities by First Nations. In particular, the Department is revising its directives on capital projects and operations and maintenance.

The Department has in place a major information system that provides an inventory of all completed major capital projects as well as regular updates of their condition. As part of its efforts to improve the quality of its information base, the Department is continuously looking for ways to improve the quality and timeliness of data relating to capital assets and develop more pertinent reports and analyses of conditions in First Nations communities.

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Report of the  
**Auditor General**  
**of Canada**  
to the House of Commons

**Chapter 24**  
Revolving Funds in the Parliamentary System:  
Financial Management, Accountability and Audit

**November 1995**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 24**  
Revolving Funds in the Parliamentary System:  
Financial Management, Accountability and Audit



**November 1995**

*This November 1995 Report comprises 12 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the May, October and November 1995 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*



# Chapter 24

## Revolving Funds in the Parliamentary System

Financial Management,  
Accountability and Audit

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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*Assistant Auditor General: David Rattray*  
*Responsible Auditor: Michael Weir*

# Revolving Funds in the Parliamentary System

## Financial Management, Accountability and Audit

### Main Points

**24.1** A revolving fund is a “revenue re-spending authority.” Once Parliament authorizes a revolving fund for an organizational unit of the government, the managers of that unit can respend its revenues on an ongoing basis for approved purposes and within agreed limits. About \$4.3 billion dollars flow through revolving funds each year. Most of this amount is for internal support services for the government. A small but growing part is for units that serve the public.

**24.2** Treasury Board establishes the policy governing revolving funds. From an accountability and performance perspective, we give the policy a passing grade, but believe that Treasury Board should strengthen it to meet today’s changing requirements.

**24.3** Revolving funds affect performance. They are tools that can do useful work, but they are not a cure-all. Their use can help to improve productivity in the public service and, in conjunction with other appropriate arrangements, can contribute to the achievement of public purposes at reasonable costs. But their use can also create conditions that encourage undesirable side effects such as the subordination of public purposes to unit goals, and perceptions of subjective pricing.

**24.4** We believe that the relevant Treasury Board rules and procedures would provide a better framework for managing these side effects if they were to:

- make public business more transparent through improved disclosure requirements; and
- make the accounting rules governing cost allocations and transfers simpler, clearer and firmer.

Most important, Treasury Board has to find ways to improve oversight over units that operate with revolving funds.

**24.5** Now is a particularly appropriate time for the government to deal with these issues. The government is increasingly using revolving funds for units that serve the public on a cost recovery basis. While the amounts involved are relatively modest, this application shifts the price of programs from the general taxpayer to specific groups of users. Issues that have been of interest only to public servants will increasingly affect many more Canadians.



## Introduction

### Use of Revolving Funds in the Canadian Government

**24.6** The government puts its receipts from various sources such as general taxation, borrowing, user fees, customs duties etc. into the “consolidated revenue fund.” These revenues are then allocated among its various programs managed by departments and agencies. To do this, the government uses various forms of parliamentary authorities to finance its programs, such as statutory authorities (e.g. revolving funds), net voting and annual appropriations. When a revolving fund finances a unit that serves the public, it is called an **enterprise** fund. When it finances a unit that provides support services to other units of government, it is called a **common services** fund.

**24.7** A revolving fund is a statutory parliamentary authority to use the revenues generated from an activity to finance it. This authority generally continues from one year to the next without further authority from Parliament. Although surpluses or deficits may occur from year to year, they are generally expected to balance out over time. A revolving fund should support increased cost effectiveness, optimal use of resources, responsiveness to clients and good business practices, when used in conjunction with other appropriate arrangements. Such arrangements include the legal and policy framework governing the provision of government services, leadership of the organization and the system of rewards and incentives.

**24.8** Revolving fund accounting practices and related requirements for disclosure of information are intended to help managers and staff focus on costs of outputs and performance. The unit derives

its revenues from selling its outputs to its “customers”. The accounting shows how costs relate to outputs, using normal business (or accrual) accounting conventions.

**24.9** The government can control and oversee the growth and performance of a unit that uses a revolving fund by making sure that the managers of the unit:

- provide specific, approved goods and services, at approved rates;
- use the revenues from operations to fund related activities; and
- account properly for their transactions.

**24.10** Another way to look at a revolving fund is as a bank account, or line of credit. Exhibit 24.1 consolidates the flow of funds for units that operated revolving funds in 1993–94. It shows that about \$4.3 billion of revenues flowed through 11 revolving funds in that year. About \$1.2 billion of the total revenues represent fees paid by user departments from their appropriations to common service units. These units, mainly situated in Public Works and Government Services Canada, provide support services — such as telecommunications, accommodation, printing, training, and purchasing services — to the rest of government.

**24.11** The government has used revolving funds for several decades. Between 1980 and 1995, it operated 23 revolving funds for varying lengths of time. Four of them operated throughout the entire period. Appendix 1 provides basic data about each of these funds.

**24.12** Exhibit 24.2 shows an upturn in the number of revolving funds in use over the period 1980 to 1995. At 31 March 1995 there were 17 revolving funds, compared with 11 the year before. The exhibit also shows that the government is using more enterprise revolving funds:

A revolving fund uses the revenues from an activity to finance it. It works like a line of credit.

fees to the public amounted to \$135 million in 1994–95, compared with \$70 million in 1993–94. The apparent increase in the number of common service funds is due to splitting off portions of the Supply Revolving Fund, as some services became optional and were organized as

special operating agencies with separate revolving funds.

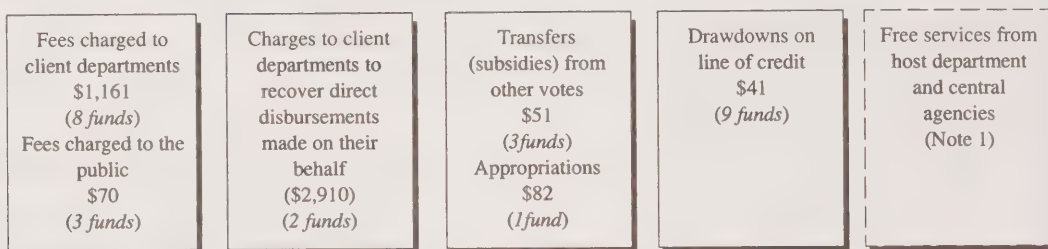
## Legal Context of Revolving Funds

**24.13** Many statutory and policy instruments govern the units financed by

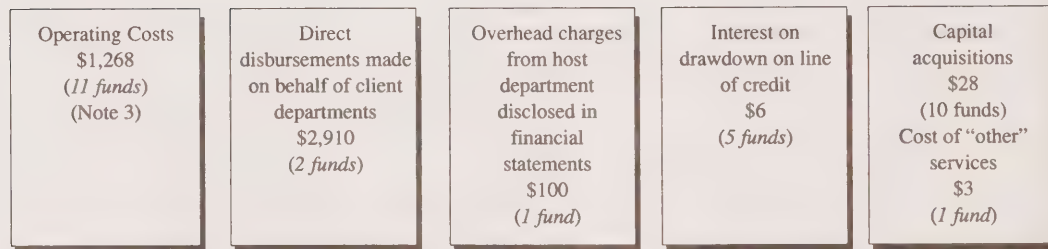
Exhibit 24.1

Fund Flows 1993–94 (in millions of \$)  
per Financial Statements

### INFLOWS (TOTAL: \$4,315)



### OUTFLOWS (TOTAL: \$4,315)



#### Notes:

- (1) Includes such items as legal and financial services as well as other services provided without charge either by the host department or by other departments and central agencies.
- (2) This exhibit includes the 11 revolving funds that were in operation in 1993–94.
- (3) Includes some elements (amount undisclosed) of overhead charges from host departments.

Source: Public Accounts, 1993–94, Volume II, Part II, Section I, Main Estimates, Part III, 1993–94.



revolving funds; the administrative policy of Treasury Board plays a central role. Together, these instruments make up the government's framework for the operation of its individual units. Exhibit 24.3 describes briefly the legal and administrative policy framework within which revolving funds work.

## Design of the Audit

### Purpose and Approach

**24.14** We did this audit to inform Parliament about how the system of internal control and accountability over revolving funds was operating. Treasury Board policy provides the framework for this system: its procedures, particularly its monitoring and oversight procedures, are key elements of the system of control and accountability. We wanted to assess whether Parliament could reasonably rely

on the system to promote high performance and good accountability from units that use revolving funds.

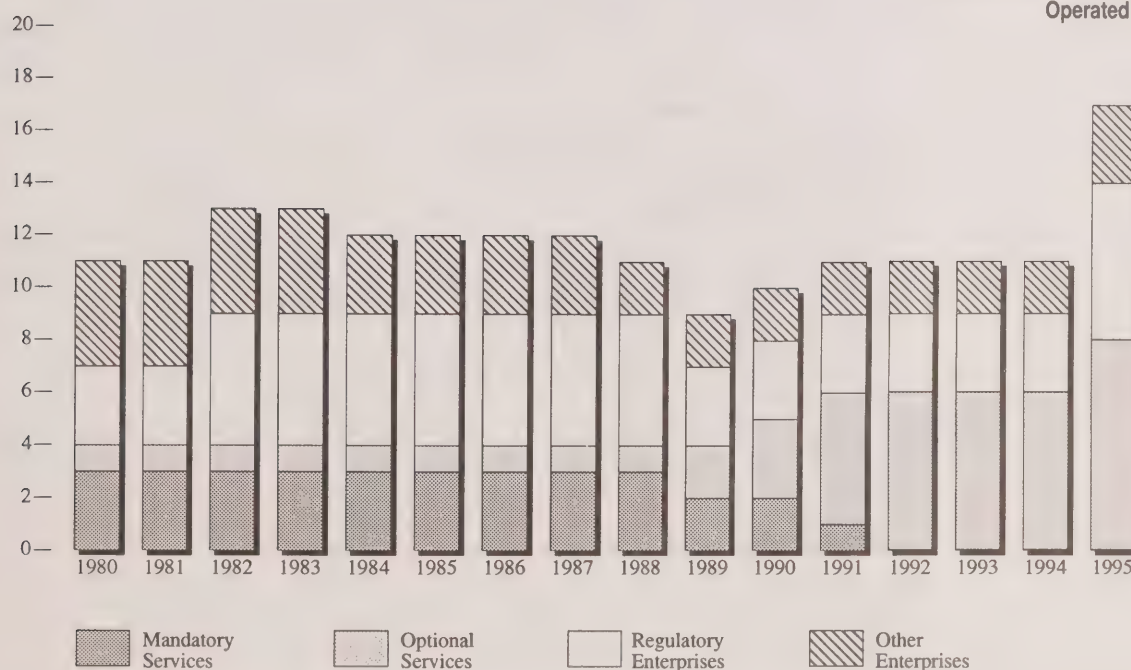
**24.15** We examined both results and process. We looked at the results obtained from the use of revolving funds over the last 15 years. We also examined how the Treasury Board policy and procedures promote accountability for organizations that use revolving funds. Exhibit 24.4 describes our approach.

**24.16** Hard data about some aspects of performance were difficult to find. For the most part, we were dealing with indicators rather than definitive measures. In some cases there were few indicators. It takes judgment to interpret indicators, and this introduces some subjectivity into our findings. Where the data support our findings beyond reasonable doubt, we have used the words "in our opinion" or "we conclude that." We have used the

**We did this audit to inform Parliament about how the system of internal control and accountability over revolving funds was operating.**

Exhibit 24.2

Number of Revolving Funds That  
Operated 1980–1995



words “it appears that” where our findings reflect a balance of probabilities. Where we were unable to reach a conclusion, we say so.

**24.17** As stated, our audit focussed on the Treasury Board Secretariat. We reasoned that it was more important to assess the overall accountability framework that affects all revolving funds than the management of individual units, none of which are identified in this chapter.

**24.18** As well as assessing results and process against criteria, we have

recommended changes for the future. To develop recommendations, we further analyzed the results obtained, the links between our findings on results and on accountability, and other relevant factors. In some cases our analysis suggested that the keys to better performance lay in areas outside the direct scope of this audit. We have reported two such concluding observations at the end of the chapter.

## Audit Criteria

**24.19** We used four criteria to assess performance and results obtained from the use of revolving funds, and five criteria to

### Exhibit 24.3

#### The Legal and Administrative Policy Framework

The role of the Treasury Board to establish administrative policies for the efficient operations of government flows from the *Financial Administration Act*. Its **common services policy** provides the overall framework for the operations of common service organizations and how they serve departments and agencies. The **contracting policy** governs competitive procurement. The guide on “Stretching the Tax Dollar – Making the Organization More Efficient” provides guidance on how to deliver services more economically and efficiently. The **special operating agency** guidelines provide a general accountability framework for the 10 special operating agencies with revolving funds.

Administrative policy does not stand alone. It works within the statutory authorities describing the functions and powers of the major departments, such as the *Department of Supply and Services Act* and the *Department of Justice Act*, as well as statutory instruments such as the *Revolving Funds Act* and the *Government Contracts Regulations*. Taken together, these statutory authorities and policies provide the legal context for the operations of units financed by revolving funds.

#### Changes to the common services policy

In 1992, in response to recommendations made by the Public Service 2000 Task Force, the government changed some important elements of the framework, particularly the common services policy. Specifically, Treasury Board decided to make “optional” as many common services as possible. Designating a service as optional gives individual line managers the right to choose the best-value supplier of support services, whether from a common service unit or a commercial sector supplier. The units providing optional services were provided with revolving funds.

At the same time, the government reverted to appropriation financing for most of its mandatory support services. This shift in Treasury Board’s common services policy had a major impact on common service units using revolving funds. These units are now expected to operate in a revenue-dependent mode in a competitive environment. Competition would require common service organizations to cater more to the needs of their customers, provide good services at competitive prices and operate efficiently. Treasury Board staff believe that market mechanisms will generally be more effective than policy mechanisms and administrative controls to achieve these benefits. Common service units would “earn their markets and pay their way” by demonstrating to customer departments that they are the best-value supplier in a competitive environment.

determine how well the rules establish accountability (see Exhibit 24.5).

## Observations and Recommendations

### General Observations

**24.20** A summary of our findings against the criteria used for this audit is shown in Exhibit 24.5. The data that we were able to obtain indicate that revolving fund experience generally met two out of four performance criteria and partly met a third; the data were insufficient to support a conclusion on the fourth. The rules and procedures generally met three out of five accountability criteria and partly met the remaining two.

**24.21** In this section, we discuss three overall observations that emerged from our audit about the system of internal control and accountability over revolving funds. More detailed discussion of our observations is presented further on in the chapter.

#### Revolving funds are good if used right

**24.22** Revolving funds can do useful work, but they are not a cure-all. Their use can help improve resource allocation and productivity and, in conjunction with other appropriate arrangements, can

contribute to the achievement of program objectives. But their use can also create conditions that encourage undesirable side effects.

#### The policy and accountability framework gets a passing grade

**24.23** The existing policy and accountability framework, while generally meeting the criteria set down, can still be improved in important areas:

- the assignment of responsibility and authority between unit heads and their deputy ministers;
- the consistency with which units allocate costs and disclose performance; and, most important,
- the effectiveness of oversight arrangements.

**24.24** Improvements in these aspects of the control and accountability framework would, if implemented, enable the government and Parliament to rely more on the system to ensure fair pricing, keep public objectives in focus, and put effective emphasis on productivity.

#### The time to act is now

**24.25** The government is increasingly using revolving funds for enterprise units. It is therefore particularly appropriate to

Revolving funds can do useful work, but they are not a cure-all.

**Results.** To audit results, we compared information about the performance of all units that used revolving funds between 1980 and 1995. The information came from many sources. We started with public information. This included financial statements, information from the Estimates, annual reports for some funds, and past reports of the Office. We drew on our past files, the government's database of internal audit and evaluation reports, and past studies of government. We also met with more than 30 former and current public servants.

**Accountability.** We used five criteria to audit the process. These criteria reflect Office positions on what it takes to demonstrate good accountability. We consolidated the relevant portions of the administrative policy and related guidance. We then analyzed what it says. We asked whether the policy matches responsibility with authority, sets clear expectations, and provides guidance about how to manage possible side effects. We also assessed the clarity of the answers it gives to questions that often arose in our interviews. We considered how well the process makes visible the results achieved. And we looked at how performance is monitored and how information is used to improve performance.

Exhibit 24.4

Audit Approach



review the accountability and control framework for revolving funds. While the amounts are relatively modest, this application shifts the price of programs from the general taxpayer to the specific groups of users who benefit most from the service. Issues that have been of interest only to public servants will increasingly affect Canadians at large.

### Results of Using Revolving Funds

#### Do revolving funds simplify resource allocation?

**24.26** One of the expected benefits of a revolving fund is that it should make it easier to allocate resources for

government activities. The general expectation of self-sufficiency over time should impose a discipline on unit managers to manage the growth of their units so that their costs remain within the level of fees earned. Senior managers and elected officials should be able to concentrate their time and attention on allocating resources to activities that are of more pressing concern to most Canadians, and rely on the system to allocate funds efficiently to units with revolving funds.

**24.27** It appears that revolving funds have generally met reasonable

#### Exhibit 24.5

#### Audit Findings at a Glance

Assessment against Criteria ( <i>Expectations</i> ) Reasonable expectations of results and accountability for revolving funds have been :				
Audit Criteria ( <i>Expectations</i> )	Generally met	Partly met	Largely unmet	Unable to tell
<b>Results: In conjunction with other appropriate mechanisms, revolving fund financing and accounting should:</b>				
1. Help reduce the effort required by senior officials and legislators to allocate resources and monitor performance	X			
2. Encourage increased cost effectiveness and responsiveness to clients	X			
3. Encourage businesslike practices, including the adjustment of the entity's resources to respond to changing circumstances and facilitating the management and mitigation of reasonably foreseeable risks		X		
4. Help achieve public purposes at reasonable cost				X
<b>Accountability: The administrative policy framework governing the use of revolving funds should:</b>				
1. Clearly assign responsibilities	X			
2. Delegate commensurate and clearly bounded authority	X			
3. Make clear what is to be accomplished	X			
4. See delegates periodically disclose, and have validated, information about performance		X		
5. See the delegator monitor and act upon performance		X		



expectations against this criterion. Public servants feel that a revolving fund, and the accounting that it requires, give them a better base for allocating resources. This holds true at both the unit level and the central agency level. However, the system of internal control and accountability could be more reliable.

**24.28** Most unit managers we interviewed indicated that they prefer to operate under revolving fund financing rather than appropriation funding. They would not choose to revert to appropriation funding, despite the additional workload (they must maintain two bases of accounting, for example) and the extra effort required to match expenses to variable revenues. Similarly, Treasury Board staff indicated that, at the time of initial approval, they get better financial and performance information for activities financed by revolving funds than for those financed by appropriations. In part this reflects the more extensive published information required of units with revolving funds. And in part it relates to additional information in the submissions they send to Treasury Board.

**24.29** To maintain parliamentary control without an annual vote of funds, members of Parliament depend heavily on the system of internal control and accountability over revolving funds. Specifically, they should expect the system to ensure that funded operations work efficiently; to charge costs and determine transfers consistently; to set prices fairly; and to disclose fully the activities of funded operations. However, there are limits on the extent to which Parliament or the government can rely on the system to achieve these ends.

### **Do revolving funds promote cost-effective and responsive service?**

**24.30** Revolving funds should help managers and staff focus on costs, productivity and customer satisfaction. These elements determine the success or failure of the entity. The expectation of self-sufficiency should give them the incentive to provide services that are better, faster and cheaper. The accounting entailed should give them better information for managing and making visible their performance.

**24.31** It appears that this criterion has generally been met. We found reasonably strong evidence that revolving funds do help to shift attention to customer needs. Empirical data on productivity and costs, however, send a more mixed message.

**24.32 Service.** Managers interviewed said that revolving fund financing helped change the focus of their staff and made them more interested in understanding what their customers wanted. This increased focus on customer service is corroborated by our previous audits of common service agencies, by the Public Service 2000 task force report on common services and by client satisfaction surveys. This focus is not always apparent, however. In at least two cases, for example, a common service unit's emphasis on costs and productivity improvement contributed to significant client dissatisfaction.

**24.33 Costs and productivity.** Published data allowed us to track productivity for seven units that operated with revolving funds for three years or more during the period 1979–80 to 1993–94. Two reported significant improvements in productivity; two showed a significant decrease; and three

There are limits on the extent to which Parliament or the government can rely on the system.

reflected no significant change.  
("Significant" is set at five percent a year.)

**24.34** Previous studies have shown that units financed by revolving funds generally tend to focus on improving services and increasing their market share, rather than on reducing their operating costs. While most managers recognize that getting a revolving fund authority carries an expectation that productivity will improve, such recognition is not universal. In our opinion, this expectation is sufficiently important that it should be unequivocal.

#### **Have business practices improved?**

**24.35** A key intended benefit of a revolving fund is that it encourages the use of up-to-date management practices and techniques. These promise to help government operate in a way that combines a businesslike concern for efficiency and costs with traditional public service values like fairness and probity. Such practices and techniques are in the areas of business planning, budgeting and accounting. The tests of the techniques include whether they help government units break from traditional patterns of resource allocation and whether they help manage, rather than avoid, risks.

**24.36** In our opinion, the results obtained partly meet reasonable expectations. The data suggest that revolving funds have helped unit managers adjust resources to changing circumstances. The adjustments may not always have been smooth, and may not always have been fast enough to meet stakeholder expectations. But they have been made. In the management of risks, however, some improvement is needed.

**24.37** **Adjusting resource levels to changing circumstances.** A number of

managers we interviewed attributed — at least partly — decisions to re-examine the rationale for some of their activities to revolving fund financing and the accompanying additional information and pressures. In some cases, services that were found to be costing too much were abandoned and different, cheaper ways were found to deliver the same or better service.

**24.38** We heard about a number of such adjustments by units with revolving funds. For example:

- one unit decided to stop delivering services that were available commercially;
- a unit manager stopped direct delivery of a cost-recovered service in favour of a licensing arrangement with the private sector when analysis of costs showed that the unit's delivery costs alone equalled or exceeded the fees it charged, without considering the price of the service; and
- another unit manager decided that his unit should not compete with the private sector because the estimated lower volume of sales would likely result in higher prices.

**24.39** **Managing risks.** A second test of businesslike behaviour is the incidence of undesirable side effects. We do not imply that there should be "zero tolerance" of such side effects: some can be signs that things are changing. But governing, at whatever level, remains an essentially political action. A government can accept undesirable side effects only to a certain level before they divert attention from main purposes. Proponents of revolving funds acknowledged that their use might give rise to side effects such as the following:

- they might be used to circumvent parliamentary authority;

**Revolving funds  
helped managers  
adjust resource levels  
but risks need to be  
better managed.**

- they might cause people to put the goals of their individual units before those of the government as a whole; and

- instead of improving performance they might be used to pass on excessive costs due to inefficiency, by charging users higher prices.

**24.40** We tested for the level of incidence of these side effects. We reviewed instances that have come to light publicly, information shown in the public reports of units with revolving funds, information in our files and comments made by managers during interviews. Exhibit 24.6 summarizes the results and describes the nature and extent to which these side effects have occurred. It suggests the need for more effective strategies to mitigate and manage these risks.

#### **Are public purposes being achieved at a reasonable cost?**

**24.41** All government activities have a public purpose. For common service revolving funds, some public purposes relate to unifying the public service, reducing its operating costs and maintaining its core values. For enterprise revolving funds, public purposes are specific to each unit.

#### **24.42 Common service applications.**

Beginning with the report of the Royal Commission on Government Organization (Glassco, 1962), the government centralized many of its support services such as accommodation, fleet management, telecommunications, translation and procurement.

Centralization was expected to bring important benefits. It would help develop the professional management of support services, allow line managers to focus on their core programs, enable the government to realize economies of scale, maintain core values of the public service,

and promote national objectives through the government's own administration. Central common service units were given monopolies. Glassco and, later, the Royal Commission on Financial Management and Accountability (Lambert, 1979) advocated revolving funds as tools to help guard against the danger of inefficient and unresponsive monopoly service. They also argued that accrual accounting associated with revolving funds would permit periodic comparison and re-evaluation of "make or buy" decisions about these services.

**24.43** Throughout the period we reviewed, the government used a mix of appropriation and revolving fund financing for its common services. It never used revolving funds fully in all the areas for which they were recommended and it did not fully implement the oversight mechanisms that were advocated.

**24.44** Assessing the achievement of public purposes by a common service unit has to be done across the government. Between 1980 and 1994 this Office conducted over 20 audits of defined common services across the government. The audits were generally unable to conclude whether public purposes had been achieved, because of underlying reasons that centered around:

- unclear or conflicting purposes;
- unclear assignment of responsibilities; and
- poor information.

**24.45** Nor did these audits provide solid grounds for believing that support services were being delivered efficiently and economically. Similarly, the findings of the Nielsen and PS 2000 task forces suggested significant room for improvement.



Exhibit 24.6

Incidence of Side Effects

**Transfers**

Enough has been said about revolving funds being used to transfer funds between the votes of one year and the next that no more than a mention is needed in this chapter. The government has moved energetically to minimize this side effect through the use of directed internal audits. Enough has also been said about past instances of exclusion of applicable costs to report a modest surplus when any reasonable definition of the costs would have shown significant losses (necessitating higher fees). Such well-publicized events affected four of the 16 funds we analyzed for side effects.

At a much lower level, we found inconsistent treatment and incomplete disclosure of costs transferred between votes in the financial statements made available to Parliament. These transfers affect the prices that are paid for services. The general level of overhead in government is usually estimated at 15 to 20 percent. Any government unit that does not achieve a surplus sufficient to cover a reasonable amount of overhead is not breaking even, no matter what its financial statements might suggest. The Public Accounts for 1993–94 show one of 11 funds being charged for overhead services, but do not disclose the basis on which the charge is made.

**Unit goals supplanting public purposes**

One concern sometimes raised about revolving fund financing is that the emphasis on self-sufficiency can divert attention from public purposes: a single-minded focus on the unit's revenue can lead to unwanted behaviours. These include, for example, "churning" outputs to increase unit revenue and (apparent) productivity, even though the outputs do not serve overall public purposes or customer needs. In at least one case, this type of behaviour contributed to a decision by the government to go back to appropriation financing. The reported incidence of such behaviour affects about 20 percent of units with revolving funds.

Another undesirable behaviour is the reported extent to which unit performance received little time or attention so long as the unit was not reporting a loss. Achievement of public purposes was not a matter of ongoing concern. About one third of all units and three quarters of common service units show this side effect to some extent.

Both categories of this side effect emphasize the need for financial reporting to be accompanied by appropriate reporting and oversight of performance, defined more broadly, to mitigate the risk that important aspects of performance cease to count because no one measures them.

**Excessive cost reflected in prices**

Revolving funds for both mandatory and optional common services have experienced problems in bringing their administrative and billing costs into reasonable line, as reported in previous studies and OAG reports. Excessive costs factor into the prices that users pay. Discontent with the level of fees charged contributed, at least partly, to the government's decision to stop using revolving funds for common services unless users also had the option of getting the same or similar services from the private sector.

Some concern has been raised about the government changing user fees for an increasing number of services without having taken sufficient action to make the service more efficient. There may be some grounds for this concern, based on the available data. Financial statements do not generally show the levels of support and overhead costs in units with revolving funds, but there are indicators that they may be increasing. By contrast, at least one unit that recently received a revolving fund authority carried out extensive benchmarking to establish the potential for better and more efficient operations.

**Complaints of unfair competition**

Private sector competitors have expressed concerns that undisclosed subsidies give revolving funds an unfair advantage in competitive bidding. They reason that subsidized units should not be allowed to bid against them. For example, they see benefits from the corporate services that common service units receive from central agencies and their home departments. Recent allegations that one common service unit competed unfairly required the government to devote significant amounts of senior management time and attention to restructuring the activities of the unit. We heard of more muted but similar concerns about three other units with revolving funds.

A second aspect of competition receives less publicity but causes similar tensions within the public service. It is found between common service organizations and departmental functional groups: they compete for mandates. The concern is that the differences in bases of accounting used preclude fair comparisons, and sometimes lead to decisions that are good for the individual department, but poor for the whole government: for example, when the government buys three expensive printing presses but could meet all its needs with one, used fully.

These complaints consume a lot of time at senior levels. Our analysis suggests that they are less an issue of revolving funds than of the government's overall approach to managing the growth and performance of its supporting services. They do underline, however, the need to be able to make fair comparisons using reliable data prepared on a consistent basis.



**24.46** In 1990, the government discontinued “in principle” the use of revolving funds unless the users of services were free to choose between the common service unit or a private sector supplier.

**24.47** Our analysis of available information does not support any strong differentiation in performance among common service units based only on their financing. It suggests that three other factors appear to influence performance:

- the oversight arrangements in the unit and how they engage stakeholders and give them a say in the operations;
- the leadership of the unit; and
- the nature of the competition and how it is regulated.

**24.48** We can reach no firm conclusions on these data. It is not possible to isolate the effects of revolving funds from those of other arrangements, such as those mentioned in paragraph 24.7.

**24.49** The broader issue of the management of support services is discussed under the heading “Related Observations”, beginning at paragraph 24.100.

**24.50 Enterprise applications.** Units with enterprise revolving funds generally serve client groups outside the government. Assessing whether they accomplish their program objectives is somewhat easier because it does not have to be done across government. Management of the units generally provide some qualitative disclosure of public purposes and performance in their annual reports. As for reducing costs, the data suggest mixed performance among different units and within the same unit over time.

**24.51** Again, we conclude that the performance of units with revolving funds is closely linked to factors other than their financing. Key factors include leadership and oversight arrangements of the units.

### Accountability for Use of Revolving Funds

**24.52** Treasury Board staff had begun work to provide better guidance on the application of the revolving fund policy before we began our audit. They had drafted a revised guide to explain the policy better, for example. Our recommendations, for the most part, are intended to add weight and focus to their initiatives.

#### Are responsibilities clearly assigned and commensurate authorities delegated?

**24.53** The first step toward effective management or accountability is to assign responsibilities and delegate commensurate authority. Our first two accountability criteria therefore looked at how clearly the rules and procedures establish:

- who is responsible for what; and
- what boundaries there are to their authority.

**24.54** It appears that both these criteria have been generally met. The rules attributing responsibilities and delegating authority address the matters that we would expect them to, and they are generally clear and consistent with similar policy statements. However, there are two important exceptions that warrant comment, especially in the light of the government’s general trend toward greater focus on results and accountability rather than on rules and process. These are:

- the assignment of monitoring responsibilities and authority (discussed beginning at paragraph 24.85); and

Three related factors influence public purpose performance: oversight; leadership; and competition.

Responsibilities and authority are generally clear ... with two important exceptions.

- the division of responsibilities between unit heads and their deputy ministers.

**24.55** Exhibit 24.7 shows how the policy allocates responsibility. It does not assign any responsibilities specifically to the direct managers of the funded operations. No guidance is provided on how these managers (who, in a sense, act as the “trustees” of the fund) share responsibilities and authority with their deputy ministers and support groups or functional managers. Further, the policy does not provide clear guidance on how to ensure that the authority limits are not exceeded on a day-to-day basis. Put simply, the policy is not entirely clear on who is responsible for the fund. This is a basic issue of accountability. Studies of, for example, special operating agency experience underline the need to get responsibility and authority straight between individual units and the host department.

**24.56** We recognize that it is difficult to write policies for governing interpersonal relations, and that policy is no substitute for people. We also respect Treasury Board’s traditional position of not intruding too much in the affairs of individual departments. But because control through a revolving fund is different, and not well understood, we believe that leadership from Treasury Board is needed in this area.

**24.57** Treasury Board should provide additional guidance in its policies, or in some other appropriate vehicle, on the general organizational relationship between the unit operating a revolving fund and the host department.

*Treasury Board Secretariat response:*  
*Within the existing government framework, consisting of legislation, regulations and Treasury Board policies, this recommendation will be taken into*

*account when the next revisions to the revolving fund policy are made.*

**Are there clear expectations about what is to be achieved?**

**24.58** Accountability requires that objectives, goals and strategies should be well understood by all concerned.

**24.59** It appears that this criterion is generally met. However, key expectations expressed in the policy have softened over time and, as we have stated, should be understood unequivocally.

**24.60** **Policy expectations.** The policy has changed over time. In 1970 the eligibility criteria for establishing a revolving fund sent two strong messages: first, the managers who received revolving fund financing were expected to keep distinct the operations financed this way; and second, they were expected to recover all their costs.

**24.61** They were to **keep clear boundaries** to the financed operation so that all relevant — and only relevant — costs could be fairly attributed to it. They were expected to **recover the total costs** of operations. In short, they were expected to be completely self-financing. If these conditions were met, the full costs of the government programs would become visible and one group of users would not unwittingly subsidize another.

**24.62** From 1980 on, the rules became more flexible. They now make revolving fund financing available to “self-sustaining (or nearly self-sustaining) transactions that provide client-oriented services.”

**24.63** **Current practice.** Treasury Board officials suggest that the revised eligibility criteria are not always applied with rigor. We noted that as many as a quarter of the existing revolving funds do not meet one or both of the expectations

Key expectations have softened over time.

Division of Responsibilities and Authority As Set  
Out in Treasury Board Policy

	Parliament	Treasury Board	Host Department	Unit Managers
<b>Create/Dissolve/Amend</b>	Approve	Approve	Prepare	
<b>Organizational Tasks</b>				
– Allocate responsibility		Approve	Prepare	
– Delegate authority		Approve	Prepare	
– Spending control mechanism		Approve	Prepare	
<b>Directives</b>				
– Basis of accounting		Approve	Prepare	
– Disclosure		Approve	Prepare	
<b>Appointments</b>				
– Unit managers			Approve	
<b>Submissions/Plans</b>	Receive <sup>(1)</sup>			
– Terms and conditions		Approve	Prepare	
– Purpose		Approve	Prepare	
– Benefits		Approve	Prepare	
– Plans		Approve	Prepare	
– Operating budgets (\$)		Approve	Prepare	
– Capital budgets (\$)		Approve	Prepare	
– Performance indicators		Approve	Prepare	
– Estimate short/long-term demand		Approve	Prepare	
– Resources acquired/obligations assumed		Approve	Prepare	
<b>Reports</b>				
– Year-end financial statements	Receive	Receive	Prepare	
– Periodic/interim		Receive	Prepare	
<b>Audit and Validation</b>				
– Terms of reference		Recommend	Approve	
– Selection			Approve	
– Act on report			Approve	
<b>Ongoing approvals</b>				
– Pricing		Approve	Prepare	
– Service line change		Approve	Prepare	
– Capital investment		Approve	Prepare	
– Use of surplus		Approve	Prepare	
– Write-offs of deficits	Approve	Approve	Prepare	
– Amount of financial support		Approve	Prepare	

Notes on terminology:

“Prepare” means the task of developing the submission or proposing action for approval.

“Approve” in the case of Treasury Board, means the agreement with the submission presented by the preparer (generally the host department) before the fact. In the case of Parliament it means approval by a vote in the House.

“Receive” means that Parliament has knowledge by virtue of the matter being tabled: e.g. the annual statements of each revolving fund are received as part of the Public Accounts each year.

(1) Parliament receives summary material as part of the Estimates process.



**It is time to make best-practice disclosure a requirement rather than a choice.**

expressed in the policy. In our view, this points out the importance of stronger oversight and review of the continuing suitability of this form of financing.

**24.64** We believe that policy statements or guidance might usefully be strengthened and that eligibility criteria need to be reassessed to address the drift from the original expectations to the current practice.

**24.65** Treasury Board should strengthen the criteria for granting revolving funds and for periodically assessing and reaffirming their continued appropriateness.

*Treasury Board Secretariat response: This recommendation will be taken into account when the next revisions to the policy are proposed.*

**Is performance disclosed and validated?**

**24.66** Good accountability requires that those who are assigned responsibility and delegated authority report periodically on the results achieved, using agreed measures and formats.

**24.67** In our opinion, the criterion has been partly met. The policy and related sources contain much that is appropriate in the area of disclosure and validation of accountability information. In practice, many units go beyond the minimum requirements of the policy. However, this is not universal, and there is room to improve disclosure of both performance and financial information. We think that it is time to make the best-practice disclosure a requirement rather than the choice of individual managers.

**24.68** Accounting conventions. Revolving fund policy and other related guidelines contain information on how to account for revolving funds using accrual accounting practices. The guidelines

currently allow for a degree of flexibility on a case-by-case basis. Flexibility allows the government to reflect its broader accounting requirements; it also leaves the government vulnerable to the perception that it counts costs in different ways in different situations.

**24.69** Treasury Board staff have moved toward adoption of Generally Accepted Accounting Principles in their draft guide on revolving funds. We support this move and believe it should be reflected in policy. The emphasis on cost recovery means moving to accounting practices that capture full costs in the proper periods. This means adopting a consistent basis of accounting. It also will remove undue flexibility in choosing case by case what costs to include or exclude in prices to the public, and in making transfers between votes and periods.

**24.70** Treasury Board should adopt Generally Accepted Accounting Principles as the standard financial accounting measure for all revolving funds.

*Treasury Board Secretariat response: The Treasury Board Secretariat recognizes the importance and usefulness of Generally Accepted Accounting Principles, and this recommendation will be taken into account when the next revisions to the policy are proposed.*

**24.71** Disclosure and reporting. We observed two main opportunities to improve financial accounting disclosure by units with revolving funds. Adopting disclosure requirements closer to those now required in the private sector would help to realize these opportunities.

**24.72** First, the current rules allow flexibility in the disclosure of segmented information. Financial statements make visible the results of only one in four of the common services (as defined in the Treasury Board policy) that are provided



by common service units with revolving funds. If segmented information were a policy requirement for revolving funds, users of the financial statements would be able to see the results of all significant services.

**24.73** Second, the rules should require that all organizations with revolving funds provide **management discussion and analysis of their operations**.

**24.74** Treasury Board staff point out (and we accept) that disclosure rules — and practices — for revolving funds are better than for the rest of government.

**24.75** As we have already noted, lack of disclosure feeds perceptions of unfairness. Private sector suppliers do not accept that they operate on a level playing field with common service units. There is a view that perceived subsidies to common service agencies provide an unfair advantage because full costs are not reflected in revolving fund accounts.

**24.76 Performance reporting.** An opportunity exists to improve the framework and rules for reporting on operational performance. Operational information has to be related to financial performance to get a reasonable picture of what has happened. A broader, consistent framework for reporting would focus attention on the aspects of performance it embraced. There is evidence to suggest that requiring disclosure along these lines would encourage managers to keep important goals in view. Many of the units with revolving funds already provide extensive annual reports. We think it is time to make this level of disclosure the rule, rather than a choice.

Cross-referencing the Estimates to these annual reports would also allow the government to simplify the Estimates.

**24.77** Treasury Board should require that units using revolving funds adopt a form of annual reporting that includes financial statements, performance reporting using an established available framework and a comprehensive “Management Discussion and Analysis” section. These reports should be submitted to Treasury Board and be available for public scrutiny.

*Treasury Board Secretariat response: The Treasury Board Secretariat recognizes the usefulness of this recommendation, and it will be given full consideration when the next revisions to the policy are proposed.*

**24.78 Audit and validation.** The audit and validation rules for revolving funds require that departmental internal audit plans include a review of compliance of operations with Treasury Board policy. The nature and scope of validation is not specified in the policy.

**24.79** Currently the annual financial statements of five revolving funds are audited by private sector firms on behalf of their host departments. The financial statements of another are audited independently by the Auditor General. The remaining funds are included in the internal audit cycles of the departments in which they reside.

**24.80** Officials of the host department may also validate the financial statements of a revolving fund.

**24.81** There are two problems in practice. First, because the funds use different accounting conventions, as we have noted, the audits apply different criteria, which affect their conclusions. Second, most of these audits do not address compliance with relevant authorities.

**24.82** Public Works and Government Services Canada has developed a standard set of terms of reference for audits of its

Disclosure practices  
for revolving funds are  
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Many of the units with  
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revolving funds. This initiative, together with clearer and more consistent accounting and disclosure rules (see paragraphs 24.68 to 24.76), could provide the foundation for more effective validation in the future.

**24.83** Model terms of reference could be extended to require that the individual carrying out the validation also express an opinion on compliance with other authority matters and on the relevance and completeness of performance reporting. We believe that Parliament would also benefit by knowing who has validated the statements it receives.

**24.84** Treasury Board should issue guidelines for independent validation of disclosed information on revolving funds that calls attention specifically to compliance with authority as well as to the fairness of the financial statements, and that identifies who carried out the validation.

*Treasury Board Secretariat response: The Treasury Board Secretariat will take this recommendation into account when the next revisions to the policy are made.*

**Do those responsible monitor and act on performance and results?**

**24.85** Should they wish to do so, parliamentarians should be able to periodically scrutinize, discuss, question and eventually approve the results and the accounts of revolving funds. They should also be in a position to comment on the resources allocated and the continued pertinence of the program. Accountability is required for all types of government activities, including those that are financed by revolving funds.

**24.86** The Treasury Board Secretariat plays an important role in the accountability chain through its oversight responsibilities, which are outlined in the

revolving fund policy. It advises government, which in turn is accountable to Parliament. The ability of both Parliament and government to rely on the system of internal control and accountability depends on the effectiveness of checks and balances over key management decisions.

**24.87** We conclude that this criterion has been partly met. Treasury Board staff have not been able to discharge the full scope of the monitoring and approval responsibilities reserved to them by current policy.

**24.88** Treasury Board's oversight responsibilities consist of the following elements:

- ensuring that the eligibility requirements for obtaining revolving fund authority are met by the entities seeking such authority;
- reviewing and approving the initial business plans of units with revolving funds and, every year thereafter, their rates and fee structures;
- setting out and reviewing the general costing approach to be used to determine the costs of products and services;
- ensuring compliance with the Treasury Board's revolving fund policy on disclosure requirements concerning the type of information needed to monitor the financial and operational performance of entities financed by revolving funds; and
- periodically evaluating the revolving fund policy to determine whether it works.

**24.89** As shown in Exhibit 24.7, the policy concentrates approval responsibilities and authority almost exclusively in the Treasury Board, supported by its staff. Treasury Board staff acknowledge that the current arrangements only partly allow them to discharge the full scope of these responsibilities.

Treasury Board staff have not been able to discharge the full scope of the monitoring and approval responsibilities reserved to them by current policy.



**24.90** In order to discharge this responsibility adequately, the staff of the Treasury Board need to have assurance that the relevant performance and financial data provided by revolving fund entities are accurate and reliable. The data need to be based on a set of generally accepted rules that are consistent from year to year across all entities using revolving funds. Under the present arrangements, they do not always have such assurance.

**24.91** Treasury Board staff need to have a clear understanding of the actual accounting practices followed by the revolving fund entity and its host organization. There is a lack of consistency in the methods of determining the financial position and operating results for revolving funds. This puts staff at a disadvantage and they cannot adequately perform their task of determining how revenues and expenses should be equalized. Consequently, ministers and Parliament have limited assurance that this important monitoring task is being carried out on a consistent basis for all revolving funds.

**24.92** The monitoring and approval of management decisions are key steps in promoting accountability for the activities financed by revolving funds. To promote effective accountability and control there is a need for Treasury Board to consider alternative strategies for sharing and improving the critical oversight responsibility. Strategies that might be considered include:

- advisory boards as used by some special operating agencies to provide stakeholder oversight and input to management decisions;
- the use of public hearings to review rates and mandates; and

- greater delegation of monitoring responsibility and commensurate authority to host departments.

**24.93** Treasury Board Secretariat should consider alternative strategies and approaches for oversight of revolving funds.

*Treasury Board Secretariat response: Independent of the funding mechanism chosen for an activity, the government considers and implements alternative strategies and approaches for oversight as appropriate. Examples are provided in the recent publication “Framework for Alternative Program Delivery”.*

## Related Observations

**24.94** The following observations relate to matters outside the direct scope of our audit. Our analysis, however, suggests that action on them might contribute to better results in future from the use of revolving funds.

### Building capacity: training, skills and education

**24.95** Treasury Board staff had identified an opportunity to improve skills and promote an understanding of revolving funds before we began this audit. Our observations and findings tend to support their assessment. Those we interviewed saw a clear gap between the financial and accounting skills usually found in government and those needed to operate a revolving fund well. About 20 percent of the units using revolving funds had gone outside the government to bring in needed technical skills, for example.

**24.96** There is a broader issue involved that relates to the training and education of line managers of units financed with revolving funds. Their career paths have often exposed them to revolving funds for only a limited time.

**24.97** Three classes of observation tend to suggest training and education needs at

There is a need to consider alternative approaches to oversight.

**Practices suggests a  
misunderstanding of  
revolving fund  
financing.**

this level. First, we saw a number of practices that suggest a misunderstanding of revolving fund financing. These include cases where departmental officials imposed staffing or financial cuts rather than insisting on better productivity. Second, there are indications that managers did not fully appreciate the risks inherent in revolving fund financing, and how they could manage them. Third, our interviews with Treasury Board staff support the conclusion that education and training are needed. Analysts there said that they would like the opportunity to rely more on departmental officials to see that operations are truly efficient.

**24.98** We conclude that it would be useful to develop a broader assessment of training and education needs, and a strategy for meeting them. This might provide a useful pilot for the government's broader adoption of accrual accounting.

**24.99** Treasury Board staff should assess how best to build the appropriate capacity needed to support better use of revolving funds and accrual accounting.

*Treasury Board Secretariat response: The Treasury Board Secretariat agrees with this recommendation, and had already taken steps prior to the commencement of the audit to achieve these ends.*

**Managing support services for  
government**

**24.100** When revolving funds are used to finance units that provide support services to government, the revolving fund policy interacts with many other policy areas. These policy areas were outside the direct scope of our audit. Nevertheless, our analysis suggests that the root causes of two side effects associated with revolving funds may stem from the way revolving fund policy interacts with these other policies: the risk that unit goals may be placed before those of the government as

a whole; and the risk of complaints about unfair competition, particularly in association with optional common services.

**24.101** As part of its continuing program review, the government has asked for a government-wide review of the provision of support services. Appointed officials have begun to respond to this request through such means as a deputy minister task force on overhead services.

**24.102** Our observations suggest the need for, and importance of, a comprehensive review of the overall management of support services across government. We have made no recommendations in this area because it was outside the direct scope of this audit. However, we do suggest some broader issues or questions that the program review might usefully clarify for the government and Parliament:

- What is the government's overall policy on when it should provide or purchase support services, and on who should provide them?
- What other funding, accounting, or organizational tools might the government use to control the growth and performance of those support services that it decides it should provide itself?
- How will the government fairly compare, on an ongoing basis, the relative costs and benefits of getting support services from private sector suppliers, common service agencies and service units in individual departments?
- Who will be accountable for the future growth and performance of support services across the government, and how might they make future growth and performance more visible than in the past?
- What is the most efficient, effective and fair way to set up and regulate competition among private sector



suppliers, common service agencies and service units in individual departments?

**24.103** The need for Parliament and government to get clear answers on the above issues goes well beyond any interest

they may have in revolving funds. From the perspective of this audit, however, the answers would help clarify some of the issues identified in the chapter that surround the use of revolving funds for optional common services.

## **Audit Team**

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For information, please contact Michael Weir, the responsible auditor.

# Revolving Funds in the Parliamentary System – Financial Management, Accountability and Audit

## Appendix I

### Revolving Funds in Government (in thousands of dollars)

FUND NAME	NOTES	PURPOSE	YEAR AUTHORIZED	YEAR TERMINATED	MOST RECENT AUTHORITY LIMIT	NUMBER OF APPROPRIATIONS 1980-1995	Balance at 31 March 1995		
							ASSETS	LIABILITIES	REVENUES
Notes		1	1	1	1	1	1	1	1
<b>Common Services Funds – Mandatory</b>									
Supply		To acquire and provide goods and services required by departments and agencies.	1975	1991	200,000	3	NIL	NIL	NIL
Sub Total Mandatory Services	2					3	0	0	0
<b>Common Services Funds – Optional</b>									
Government Telecommunications Agency		To plan and provide telecommunication facilities and services to federal departments and agencies.	1963	1994	64,000	6	NIL	NIL	NIL
Staff Development & Training		To provide training and development to the Public Service.	1971		4,500	13	5,642	4,211	14,528
Architectural, Engineering and Realty Service		To make expenditures for undertakings by PWGSC on behalf of other government departments.	1980		450,000	8	119,875	219,685	439,059
Canada Communication Group		To provide printing, publishing, exhibitions and films for federal departments.	1991		100,000	1	63,314	78,550	119,596
Consulting & Audit Canada		To perform consulting and auditing services for federal government departments and agencies.	1991		30,000	2	22,537	16,806	62,935
Optional Services		To acquire and provide articles, supplies, machinery, equipment and other material.	1992		100,000	1	54,204	26,399	251,286
Government Telecommunications and Informatics	3	To provide information management/information technology services to federal departments and agencies.	1994		64,000	NIL	34,305	31,534	317,894
Radian Revolving Fund		To deliver distance learning and business communications in the public sector.	1994		10,000	1	246	68	802
Translation Bureau		To provide translation interpretation and terminology services to federal departments and the private sector.	1995		75,000	1	NIL	NIL	NIL
Sub Total, Optional Services						33	300,123	377,253	1,206,100
<b>Regulatory Enterprise Funds</b>									
Defence Production		To finance the stockpiling of defence supplies and materials.	1951		100,000	NIL	NIL	NIL	NIL
Passport Office		To issue appropriate travel documents to Canadians.	1969		4,000	NIL	10,658	8,107	49,610
Canadian Pari-Mutuel Agency		To provide racetrack supervision in Canada.	1970		2,000	1	928	1,149	14,390
Environmental Studies (EMR)		To finance environmental and social studies that are necessary to determine whether to authorize oil and gas exploration or development activities on Canada Lands.	1982	1988	15,000	NIL	NIL	NIL	NIL

FUND NAME	NOTES	PURPOSE	YEAR AUTHORIZED	YEAR TERMINATED	MOST RECENT AUTHORITY LIMIT	NUMBER OF APPROPRIATIONS 1980-1995	Balance at 31 March 1995		
							ASSETS	LIABILITIES	REVENUES
Notes		1	1	1	1	1	1	1	1
Environmental Studies (IAND)		To finance environmental and social studies that are necessary to determine whether to authorize oil and gas exploration or development activities on Canada Lands.	1982	1988	15,000	NIL	NIL	NIL	NIL
Canadian Intellectual Property Office		To grant or register exclusive ownership of intellectual property in Canada and to disseminate information and state-of-the-art technology to Canadians..	1994		25,000	1	78,015	32,444	44,768
Parks Canada (Hot Springs)		To operate the Parks Canada Enterprise Unit (Hot Springs).	1994		6,000	1	3,404	490	2,833
Canadian Grain Commission		To regulate grain handling and maintain standards of quality.	1995		12,000	1	NIL	NIL	NIL
<b>Sub Total Regulatory Enterprise Funds</b>						4	93,005	42,190	111,601
<b>Other Enterprise Funds</b>									
National Film Board		To initiate and promote the production and distribution of films in the national interest.	1950		25,000	15	26,484	18,512	10,779
Airports		To operate, maintain and develop such airports as the Treasury Board may approve.	1969	1991	80,000	1	NIL	NIL	NIL
Petroleum Compensation		To provide incentives for the development of designated classes of high-cost domestic petroleum through the payment of compensation to first users of such petroleum.	1979	1984	225,000	NIL	NIL	NIL	NIL
Stores (Transport Canada)		To establish an effective central control and accountability over the purchasing, stocking and issuing of expendable items required by Transport Canada.	1980	1987	43,700	3	NIL	NIL	NIL
Corcan		To employ federal offenders in the manufacture and sale of goods and services to other government departments and the private sector.	1992		45,000	1	44,580	7,616	50,684
Geomatics Canada		To provide surveys, maps and remotely sensed data and geographically referenced information.	1994		8,000	1	4,101	4,637	12,569
<b>Sub Total, Other Enterprise Funds</b>						21	75,165	30,765	74,032
<b>Grand Total</b>						61	468,293	450,208	1,391,733
<b>Notes</b>									
1) Source: Public Accounts and Estimates Part III									
2) There were two other Common Services Funds that were mandatory for a certain time during the period 1980-95:									
– GTA, which became optional in 1990; and									
– Architecture, Engineering and Realty Services, which became optional in 1988									
3) As of 1 April 1994 all balances in the GTA Revolving Fund were transferred to the GTIS Revolving Fund									





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Report of the  
**Auditor General**  
of Canada  
to the House of Commons

**Chapter 25**  
Revenue Canada: The New Regime  
for Processing Income Tax Returns

**November 1995**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 25**  
**Revenue Canada: The New Regime  
for Processing Income Tax Returns**



**November 1995**

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# Chapter 25

**Revenue Canada**

The New Regime for Processing  
Income Tax Returns

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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*Assistant Auditor General: Shahid Minto*  
*Responsible Auditor: Basia Ruta*

## Revenue Canada

### The New Regime for Processing Income Tax Returns

#### Main Points

**25.1** In the last four years, the method of processing personal income tax returns by Revenue Canada has undergone more restructuring than it had in the preceding thirty years. The Department has replaced traditional manual practices for processing returns with new technologies, and is using different approaches for verifying information reported on returns. Revenue Canada believes that the restructuring has resulted in improved productivity, better service to taxpayers and strengthened system safeguards overall. We note that under the new regime taxpayers receive their refund cheques and/or initial assessments earlier.

**25.2** A major component of the restructuring was the introduction of EFILE, the electronic filing of individual income tax returns. In 1993 we reported on EFILE in its first year of nation-wide implementation. With EFILE returns, taxpayers are not required to submit any supporting documentation unless the Department asks for it, and most of the verification of those returns takes place after refund cheques have been issued. To compensate for the reduction in up-front manual checking of returns prior to initial assessment, the Department scores each return during assessment in an effort to identify non-compliant returns and has instituted new programs to verify returns, largely after assessment, and to monitor trends in voluntary compliance.

**25.3** Continuing with its restructuring initiative, the Department has moved quickly since 1993 to process paper returns in a similar way to EFILE returns. Our overall concern in 1993 was the potential for significant revenue loss to the government should taxpayers' voluntary compliance deteriorate, given the absence of receipts with EFILE returns, limited up-front checking, new and untested compensating verification systems, weak compliance monitoring programs and the lateness of the Department's automated document-matching program to detect other reporting errors or inconsistencies.

**25.4** Two years after carrying out our audit, we continue to be concerned about the readiness of Revenue Canada's systems to contain risks of lost tax revenue in the new environment — concern that now extends to the processing of paper returns. We note, however, that the Department has taken some positive steps to enhance its control environment for matters that deal with EFILE tax preparers specifically. It has also stepped up its efforts to review questionable refunds in order to deal more effectively with fraud.

**25.5** The Department believes that it has put in place a streamlined, technologically advanced system for verifying returns during processing and after assessment. When also considering new programs to monitor taxpayer compliance behaviour, the Department's view is that the new regime results in a more cost-effective and productive approach to processing returns than a regime focussed on traditional methods. However, the Department has been unable to provide us with a substantive analysis to support such a conclusion.

**25.6** In monitoring taxpayer compliance behaviour, inconsistently applied and monitored procedures used by the Department for capturing essential information following its review of taxpayer returns for the 1992 tax year have resulted in incomplete and potentially inaccurate data for that year — the first year of nation-wide implementation of EFILE. Without complete and accurate data for this important benchmark year, the Department has lost an important opportunity to properly monitor and react to changes in voluntary compliance on a timely basis. Moreover, we are concerned about the design of the Department's compliance-monitoring programs. We note that these programs are still not designed to collect the appropriate data for analyzing year-to-year changes in voluntary compliance on a timely basis.

## Main Points (cont'd)

**25.7** Despite the data quality problems for tax year 1992, we believe that the data are reasonably useful for making a qualitative assessment of the changes in non-compliance for specific line items on a return. Our analysis of statistics gathered by the Department for tax years 1992 and 1993 suggests a worrisome increase in inaccurate information reported by taxpayers on both EFILE and paper returns, but particularly on EFILE returns. More years of data are required to determine if this movement is temporary or permanent in nature. At the completion of our audit, Revenue Canada had not undertaken any substantive analysis of its statistics.

**25.8** The Department has provided an action plan that is included in Exhibit 25.9 of this Report.

## Introduction

**In the last four years, returns processing has undergone more restructuring than it had in the preceding thirty years**

**25.9** Revenue Canada has been working toward developing innovative tax administration technologies and generally improving the cost effectiveness of its programs. In this spirit, Revenue Canada has recently instituted a new regime for processing personal tax returns. Departmental officials have indicated that returns processing has undergone a massive restructuring since 1991.

**25.10** The Department has replaced traditional manual practices for processing returns with new technologies and is using different approaches for verifying information reported on returns. The Department believes that the restructuring has improved productivity and service to taxpayers and strengthened systems safeguards overall. It has also resulted in the transfer of some resources from processing to enforcement activities. We observed that under the new regime the time it takes for taxpayers to receive their refund cheques and/or initial assessments has been cut almost in half compared to a few years ago.

**25.11** A major component of Revenue Canada's restructuring was the introduction of EFILE in 1993. EFILE is the "paperless" electronic filing of income tax returns. Taxpayers using it must submit their returns to Revenue Canada through authorized EFILE tax preparers. These preparers are expected to deal directly with the taxpayers and to see the documentation from which a return was prepared. Revenue Canada has not put in place any mechanism to monitor compliance with these instructions nor can it be assured that expectations are properly

understood. The Department informs us that, as EFILE has been in effect for a few tax years, it will be re-examining its monitoring strategies with respect to the program.

**25.12** Taxpayers filing EFILE returns are not required to submit any supporting documentation, such as receipts, to Revenue Canada unless the Department asks for it. To compensate for less up-front manual checking of EFILE returns before the initial assessment, the Department instituted new programs in 1993 to both verify returns during and after assessment, and monitor trends in voluntary compliance. Most of the work of those programs takes place after the refund cheque and/or the initial assessment has been issued.

**25.13** We audited EFILE in 1993 in its first year of nation-wide implementation. We did the audit because of the profound effect that EFILE would have on traditional tax administration practices. Moreover, EFILE was the forerunner of changes that would soon also affect the processing of paper returns. Although taxpayers must still file some receipts and information slips with their paper returns, this requirement has been relaxed. As well, the Department has significantly reduced the extent to which it carries out up-front manual checking of paper returns against supporting information before the initial assessment (as it has for EFILE). For the 1994 tax year, EFILE and paper returns were being processed in virtually the same way.

*Department's comments: The Department believes that risk containment has not been affected. Preliminary estimates for the 1993 tax year suggest that, based on statistically valid random sampling on 13 deduction and credit line items, 91 percent of returns would likely require no adjustment. Moreover, results of the document-matching program for the 1992*



*and 1993 tax years\* (see below) show that 96 percent of the returns matched for 13 income, credit and withholding categories required no adjustment.*

*\* Subsequent to the completion of our audit, the Department informed us that it had generated additional statistics on the document-matching program for tax year 1993. We are unable to comment on these statistics.*

## Audit Approach and Scope

### We expanded our follow-up audit on EFILE to include paper returns

**25.14** We expanded our follow-up of the 1993 chapter on EFILE to include the processing of paper returns. We did so because the Department has expanded the new regime to cover paper returns. In our view, the fact that all personal returns are now being processed in a similar way raises the importance of system deficiencies that we reported in 1993. We were concerned that if these deficiencies were left uncorrected, they would pose significant risk to the tax base and to the security and integrity of tax administration systems in general.

**25.15** Our overall objective in the follow-up was to determine whether the Department had taken steps to correct the deficiencies that we observed in 1993, and to provide timely information on recent developments in the new processing regime.

**25.16** The criteria used for the expanded follow-up audit are found in Exhibit 25.1.

**25.17** We carried out our audit work at Revenue Canada's head office and at one district office and one taxation centre. As part of our work, we used available departmental statistics to compile information on patterns and year-over-year variations in taxpayers' voluntary compliance for tax years 1992 and 1993. We did not audit the accuracy or completeness of the data used in deriving this information. We also looked at the returns-processing operations in three other jurisdictions where both electronic and paper returns are used. The purpose of this review was to update our knowledge about electronic filing programs and about any new systems for processing and verifying both paper and electronic returns.

#### Exhibit 25.1

##### Audit Criteria

##### New Processing Regime

- The EFILE preparer application form should be appropriately designed to facilitate the screening of applicants; established criteria for suitability screening should be assessed to determine the extent to which they are being followed up and criteria found to be invalid should be removed from the Department's list of established criteria.
- In monitoring taxpayers' voluntary compliance on both EFILE and paper returns, the scope of items covered should be expanded, ensuring that the most significant items are included, and ensuring the year-to-year comparability of sample characteristics.
- To mitigate potential risks associated with issuing incorrect refunds or initial assessments, matching should be performed at the time of initial assessing.
- The Department should have appropriate, reliable measures for evaluating the effectiveness of the back-end verification process in the new processing regime.

*Source: 1993 recommendations of the Auditor General on Electronic Filing of Individual Income Tax Returns*



## Observations

**In 1993 we raised important concerns about the readiness of new systems to contain risks**

**25.18** In 1993 we looked at the control environment in place for EFILE returns. We observed that the Department had proceeded in a systematic way to develop the systems for data capture and transmission on which EFILE is based. However, we found that in making the decision to remove the requirement to file receipts and information slips for EFILE returns, the Department had acted on very limited information about the risks involved, and with only a qualitative assessment of the effects that this decision may have on voluntary compliance by taxpayers. Although Revenue Canada had identified and instituted important compensating verification and monitoring programs, we noted that their effectiveness in achieving desired results was unknown.

**25.19** Our primary concern was the potential for significant revenue loss to the government should taxpayers' voluntary compliance deteriorate given the absence of receipts with EFILE returns, very limited up-front manual checking against supporting documentation prior to initial assessment, new and untested verification and compliance-monitoring programs and the timing, several months after initial assessment, of the Department's automated document-matching program to detect other reporting errors or inconsistencies. We noted in our 1993 audit that the Department could mitigate many of the risks associated with the new regime by bringing its automated document-matching program, which electronically compares third party information with information on taxpayer

returns, into play at the time when tax returns are initially assessed.

**Significant deficiencies remain in the Department's verification and compliance-monitoring programs**

**25.20** In 1993 the Department stated that our audit provided only a "snapshot" review, which did not take into account a number of enhancements that were being implemented for the following tax-processing year. However, two years after carrying out our 1993 audit, we find that the new processing regime has still not evolved sufficiently to provide reasonable assurance that the right amount of income tax is being assessed and collected on a timely basis. While the Department has identified necessary components to an effective returns-processing regime, we continue to be concerned about both the design of verification and compliance-monitoring programs under the new regime and their related implementation. In our view, the risk of revenue loss is even greater today than it was in 1993 because paper returns and EFILE returns are now being processed in virtually the same way. Moreover, the effectiveness of the new regime's ability to assess returns appropriately is critical for a number of government programs that are administered through the income tax system. For example, an error in assessed income could cause an incorrect social benefit entitlement to be processed. Two key federal programs that rely on accurate tax assessments are the Child Tax Benefit and the Goods and Services Tax Credit programs, which annually distribute several billion dollars in social benefit payments. A number of provincial benefit programs are also linked to federal income tax assessments.

**25.21** The Department believes that it has put in place a streamlined,

**Two years after carrying out our 1993 audit, we find that the new processing regime has still not evolved sufficiently to provide reasonable assurance that the right amount of income tax is being assessed and collected on a timely basis.**

technologically advanced system to verify returns during processing and after assessment. When also considering new programs to monitor taxpayer compliance behaviour, the Department's view is that the new regime results in a more cost-effective and productive approach to processing returns than a regime focussed on traditional methods. However, the Department has been unable to provide us with substantive analysis to support such a conclusion.

**25.22** In the following paragraphs we describe our observations and concerns about the design and performance of the Department's new programs for verifying the information on tax returns and monitoring trends in voluntary compliance. We also present results from our analysis of statistics gathered by the Department for tax years 1992 and 1993 on actual adjustments to return information for both EFILE and paper returns. The results suggest a worrisome increase in inaccurate information reported by taxpayers.

**25.23** Exhibit 25.2 summarizes the features of the Department's control environment for verifying and monitoring returns under the new processing regime. This summary provides necessary context for our observations in the ensuing paragraphs.

*Department's comments: While the Auditor General has supported our use of innovation and technology, the Department recognizes that refinements to the strategy and structure of the regime are still required. It does not agree that significant deficiencies exist. Indeed, since 1993, several initiatives have been undertaken to contribute to the refinement of the strategy, including the testing of neural network technology for the scoring routines, annual improvements to the confidence validities, and new data capture methods for random samples.*

## Control Environment for EFILE

### The Department has addressed certain 1993 observations specific to EFILE

**25.24** As noted in 1993, screening is the first line of defence in preventing unsuitable tax preparers or transmitters from entering the EFILE program. In 1993 we observed that the Department could strengthen its screening procedures if it improved the design of the basic EFILE preparer application form, since the original form captured only limited information on applicants. We also noted that the Department should assess the extent to which its established criteria for suitability screening are being followed up and remove from the list those criteria that are found to be invalid.

**25.25** Over the past two years, the Department has improved the design of its application form. Departmental officials have told us that the new design has streamlined the screening process. We also note that the Department has developed monitoring procedures that provide greater confidence that EFILE tax preparers are maintaining copies of the paper form that links the taxpayer with the EFILE tax return. Procedures are now in place to ensure that tax preparers who do not comply with this control objective cannot participate in the EFILE program.

**25.26** With respect to the list of screening criteria, we note that it has been modified to omit the direct reference to a conviction of a criminal offence. Departmental officials have indicated that this criterion was removed since the Department has no authority — under either the *Income Tax Act* or Government Security Policy — to perform a criminal name check for administrative purposes. Moreover, they believe that the costs in time and resources to perform these checks would not justify the benefits to be derived. Obtaining the authority could be

a lengthy process and there is no guarantee such authority would be granted.

**25.27** We note that in the United States, the Internal Revenue Service (IRS) recently began conducting criminal

Revenue Canada relies on a number of controls to ensure the integrity of the new returns-processing regime. Some controls are specific to EFILE, but most are common to both paper and EFILE returns. Various controls specific to EFILE come into play before the Department accepts a return for processing. These deal primarily with screening of EFILE tax preparers and transmitters and ensuring that the EFILE returns they transmit to the Department are in a usable format for further processing.

Once the Department has accepted a return (EFILE or paper), it relies on two sets of controls that are common to both types of returns. The first set (front-end controls) operates or is triggered before an assessment is arrived at or a refund issued. The second set (back-end controls) operates either after an assessment or refund has been issued.

The front-end controls are intended to highlight returns that do not appear to comply with the tax law. These controls can be partly computerized and partly manual. Returns are highlighted before an initial assessment or refund is issued but may not be followed up until afterward. The controls of this type include confidence validities, error clues and the fraudulent refund detection program.

The back-end controls differ from the first set in that they operate only after assessments have been completed and refunds issued, but their purpose is the same — to detect possible non-compliance. The processing review and matching programs fall into this category. Errors identified in those programs result in reassessments. While both front-end and back-end controls may have multiple objectives, the primary one is to ensure that tax returns are properly assessed.

#### **New regime compared to old regime**

Under the new regime, information reported on tax returns is subjected to substantially less manual up-front checking to supporting documentation than when traditional methods for processing returns were used. For tax year 1989, approximately 50 percent of all returns, or roughly 9.5 million returns, were subjected to manual front-end checking of returns against slips and receipts before the initial assessment. For the 1994 tax year, that statistic changed to about 5 percent or 1 million returns.

The Department's new regime continues to use automated front-end error clues that check each return for reasonableness during initial assessment. In addition, it is still using the document-matching program that electronically compares third party information against information reported on taxpayer returns — although this comparison occurs several months after returns have been initially assessed.

To compensate for the reduction in manual up-front checking of returns to supporting documentation, the Department has instituted two new programs. The first program, confidence validity, is meant to identify the most suspicious or risky returns for review before initial assessment. The second program, processing review, is used after the initial assessment. Processing review uses random and non-random sampling to ensure some enforcement activity for a wide cross-section of filers as well as to identify and address areas of potential non-compliance. It largely replaces the traditional manual verification procedures that were applied under the old regime on a substantial number of returns prior to initial assessment. The new regime is meant to provide the Department with a cost-effective way to process returns efficiently and with low risk. Implicit in the new regime is the objective to direct resources where risk of non-compliance appears to be greatest.

---

#### **Exhibit 25.2**

#### **Revenue's Canada's Control Environment**



**The Department can contain the risk of issuing erroneous assessments and refunds for suspicious returns only if the programs for flagging those returns are well designed and properly implemented.**

background checks and that it uses these checks as a primary tool to prevent unscrupulous applicants from gaining access to its electronic filing program. The IRS also requires every applicant to declare whether he or she has ever been convicted of a monetary crime.

**25.28** We are unable to determine the extent of the risks associated with Revenue Canada's decision not to inquire about an applicant's prior criminal convictions. We would encourage the Department to continue to monitor the situation in Canada and abroad and review its policy in the future when warranted.

### **Control Environment for Paper and EFILE Returns — Front-End Controls**

#### **Procedures for flagging the most risky and suspicious returns prior to initial assessment need improvement**

**25.29** As elaborated on in Exhibit 25.2, in processing both EFILE and paper returns under the new regime, the Department continues to use automated front-end error clues that check each return for reasonableness prior to initial assessment. In addition, it is still using the document-matching program that electronically compares third party information against information reported on tax returns, although this comparison occurs several months after returns have been initially assessed. Two new programs, "confidence validity" and "processing review", have been instituted under the new regime.

**25.30** The confidence validity program, first implemented for the 1992 EFILE returns, and later expanded to cover paper returns, is integrated with the Department's automated front-end error clues. The program looks at each return and is designed to target the most risky or

suspicious returns for manual review prior to initial assessment. Returns are selected automatically according to predetermined criteria, known as confidence validities.

**25.31** The Department can contain the risk of issuing erroneous assessments and refunds for suspicious returns only if the programs for flagging those returns are well designed and properly implemented. Our review of the way that the confidence validity program is designed raises important concerns about the Department's ability to contain this risk. Although the confidence validity criteria have been expanded and modified considerably since they were first introduced for tax year 1992, they continue to be based on the judgment and experience of program administrators rather than an appropriate combination of judgment and meaningful and objective statistical analysis of the results from prior years' verification activities.

**25.32** For the 1994 tax year, many of the confidence validity clues were based on the same selection criteria employed under the Department's processing review program for post-assessment verification. Yet, as elaborated on in paragraph 25.56, our analysis of these criteria suggests that several are ineffective in identifying returns with a high potential for error. Similarly, for tax year 1993, we observed that for some confidence validity criteria, not a single EFILE return was flagged by the system for further follow-up — the tolerance limits apparently having been set too high. In contrast, at least some paper returns were flagged by the system under each of the paper confidence validity criteria. For the 1994 tax year, the situation has improved.

**25.33** In our view, the Department would be able to target suspicious or risky returns more effectively if it were to use standard statistical methods to establish its



confidence validity criteria. Having effective criteria is especially important, considering the potential for substantial revenue loss if the Department issues incorrect assessments or refunds for highly suspicious or risky returns. We recognize that the Department can reassess returns at a later date after refund cheques or initial assessments have been issued and try to recover any lost tax revenue. However, in our view, the potential for recovery on highly suspect returns may be quite limited.

#### **Not all returns flagged as suspicious or risky are reviewed prior to assessment**

**25.34** Because the confidence validity program focusses on identifying only the most risky and suspicious returns before the initial assessment, the number of returns that the system will flag is expected to be relatively small. For the 1993 and 1994 tax years, the system flagged about 12 of every 1,000 EFILE and paper returns for some form of review or check by examiners. However, we found that the Department did not review all suspect returns before it made an assessment or issued a refund cheque. For the 1993 and 1994 tax years respectively, 22 percent and 14 percent of suspicious or risky EFILE returns and 12 percent and 6 percent of flagged paper returns were not reviewed prior to assessment. Moreover, the Department cannot be certain that all returns not reviewed prior to assessment will be verified after assessment.

**25.35** Results of the confidence validity program present some interesting contrasts between reporting errors on paper and EFILE returns. For those confidence validities that were the same for both paper and EFILE returns for the 1993 tax year, we found that the frequency of claims disallowed or reduced was 2.4

times higher for EFILE returns than for paper returns. Put simply, for every 100 EFILE returns, eight required adjustment while for paper returns, three or four required adjustment. In contrast, the results for an expanded and considerably modified set of common confidence validities for the 1994 tax year show that the frequency of claims disallowed or reduced was actually 2.2 times higher for paper returns than EFILE returns. While the statistics for these two years are not representative of compliance characteristics in the overall paper and EFILE populations, they do provide an indication of the relative performance of the Department's selection criteria for identifying the most risky and suspicious returns. We note that the Department has not done any substantive analysis of these statistics in an effort to better understand why and in what areas taxpayers are reporting incorrect information on their tax returns and to ensure that the design of its confidence validity criteria is appropriate for both types of returns.

*Department's comments: The Department is of the view that the existing procedures for identifying high-risk returns constitute a prudent basis for management of the risks involved. Moreover, enhancements have been made to the confidence validity routines in the past two years, and will continue to be made annually. All returns flagged for review will be examined prior to assessment or in the post assessing review in the 1995 and subsequent tax years.*

#### **More resources are being devoted to detecting fraud**

**25.36** If, after following up on unusual amounts on returns and potentially excessive claims flagged by the system, Revenue Canada suspects fraud, the return will be examined in the Department's fraudulent-refund-detection program.

For the line items reviewed, the random samples provide important evidence on trends and patterns in taxpayers' voluntary compliance.

**25.37** Since tax year 1992, the Department has increased the level of resources it devotes to reviewing questionable refunds in an effort to deal more effectively with fraud. Budgeted resources have increased to 58 examiners, up from 19 in earlier years. Departmental records show that the number of questionable refunds stopped has increased from about 2,000 for tax year 1992 to about 5,000 for tax year 1994. Crown revenues protected by these efforts increased from about \$3 million to \$8.5 million for these tax years, respectively. The Department needs to investigate the reasons for this and tailor its non-compliance enforcement strategy accordingly.

**25.38** Revenue Canada is also starting to pursue other initiatives to learn about fraudulent reporting. For the 1994 tax year, the Department carried out a special study to explore the incidence of fraudulent T4 reporting on discounted EFILE returns. Although this sample was too small and not sufficiently representative to enable the Department to draw general conclusions about the reporting behaviour of EFILE taxpayers or their preparers, we believe that these efforts represent a useful step toward creating a more secure processing regime.

**25.39** In our review of IRS practices, we found that IRS examiners rely on employer identification details provided by taxpayers as part of their return submission to assist in verifying the authenticity of reported wage and withholding information. The information used to identify employers is included for both paper and electronic returns. IRS examiners find such information invaluable as a tool for uncovering many false reports prior to assessment and stopping fraudulent refunds. Revenue Canada may use this technique for paper

returns, but the necessary employer information to facilitate this check before the initial assessment for EFILE returns is presently not available with the current return submission.

## Control Environment for Paper and EFILE Returns — Back-End Controls

### Processing review involves random and non-random sampling of taxpayer returns after assessment

**25.40** One of the Department's most significant post-assessment verification activities under the new regime is the processing review program. The program's goal is to maintain the integrity of the tax system by ensuring that tax returns are properly assessed. As well, the program is intended to provide Revenue Canada with the necessary level of assurance that returns are being processed properly and at low risk to the Crown.

**25.41** One part of the program involves verifying a random sample of returns; another part involves verifying a non-random compliance sample of returns that are considered most likely to contain errors and, therefore, present a better potential for recovery of tax dollars. Both of these samples are designed to cover only specific line items on a return.

**25.42** For the line items reviewed, the random samples provide important evidence on trends and patterns in taxpayers' voluntary compliance. They also provide information that can be used to update the criteria that Revenue Canada uses to identify potential areas of abuse for further investigation. In addition, random sampling helps to promote voluntary compliance by demonstrating that the Department is carrying out some enforcement activity on a wide cross-section of filers.



**25.43** Currently, the non-random compliance samples are meant to focus on extreme cases of revenue loss for specific line items of a return by considering a number of factors. Those factors include known aspects of compliance history for a given taxpayer, to identify returns on which the amount of misreporting on claimed deductions appears to be the largest. If, following review, an adjustment is required to the initial assessment, a reassessment notice will be issued. In this regard, compliance sampling complements the Department's front-end confidence validity checks, which are designed to target the most risky and suspicious returns for review prior to assessment. Compliance sampling may also serve as a deterrent by limiting the extent to which some taxpayers are willing to overstate deductions.

**Weaknesses in the design and implementation of the random sample compromise the Department's ability to monitor changes in voluntary compliance**

**25.44 Design.** In 1993 we noted that to effectively monitor taxpayers' voluntary compliance, the Department needed to ensure that line items selected for review under the random samples are comparable from year to year, that the same line items are selected for both EFILE and paper returns, and that the scope of items monitored is expanded to include the most significant line items on the tax return.

**25.45** Our 1995 audit found that our basic concerns about the design of the random samples still have not been addressed. In particular, as illustrated in Exhibit 25.3, the items included in the random sampling for the 1991 to 1993 tax years have varied from one year to the next for both EFILE and paper returns. Furthermore, the Department has not targeted the same line items for paper and

electronic returns over the same period. These inconsistencies continue for the 1994 tax year. For paper returns, only six line items are to be randomly sampled for review, and none of these items matches those that were reviewed for the 1993 paper returns. These same six line items are tentatively scheduled for random selection on the 1994 EFILE returns as well. Only three of them will be comparable with EFILE line items selected for tax year 1993. The lack of consistency in line items selected for review limits Revenue Canada's ability to draw inferences about trends and patterns in voluntary compliance — inferences that are crucial if the Department is to keep abreast of changing conditions and react to them on a timely basis. Subsequent to our audit, the Department informed us that it plans to review and expand the 1994 random sampling in an effort to allow for greater comparability with items selected for review in prior years.

**25.46** Regarding the scope of line items covered in the random samples, and the need to ensure that the most significant line items are included, we noted in 1993 that items chosen for random review did not include certain significant line items, such as wages and income tax withholdings. These are items that people who file either paper or electronic returns claim most often, and that, as U.S. experience shows, are frequently implicated in frauds involving electronic returns. We recognize that the Department's document-matching program (which electronically compares information supplied by employers and other third parties with information on personal tax returns) offers a potentially useful source of information for these line items. However, we observed in 1993 that the Department had not modified its statistical software for this program so that it would routinely compare the incidence

of reporting discrepancies between paper and EFILE returns. Because the matching program covers virtually the entire population of returns, any such discrepancies would provide an important source of information for monitoring changes in taxpayers' voluntary compliance for both types of returns.

**25.47** In our 1995 audit, we found that the Department has not kept track separately of the levels of adjustment to income and income tax withholdings on EFILE and paper returns. (We note that the Department did carry out this procedure for the 1992 tax year after our audit.) As elaborated on in paragraph

### Exhibit 25.3

#### Design of the Random Samples — Line Items Targeted

#### Part A – EFILE and Paper Returns Tax Years 1991 through 1993

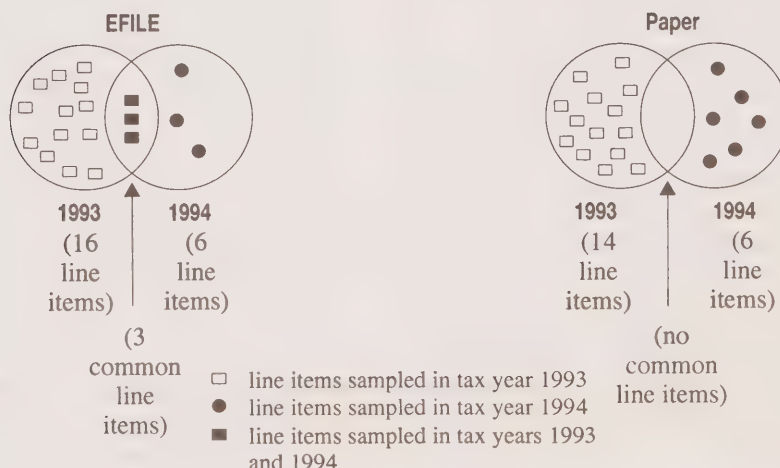
*The items included in the random sampling for the 1991 to 1993 tax year have varied from one year to the next.*

Line Item Sampled	# of years that the line item was sampled (maximum 3)	
	EFILE	PAPER
RPP contributions	1(*)	1
RRSP contributions	2	0
Annual dues	1(*)	2
Child care expenses	2	2
Moving expenses	2	3
Alimony/Maintenance	2	3
Other deductions	2	0
Other employment expenses	0	1(*)
Northern resident deduction	2	3
Equivalent to married	2	2
Additional personal exemptions	1	1
Tuition fees	3	3
Education amount	3	3
Tuition/Education transfer	3	3
Amounts transferred from spouse	3	1
Medical expenses	3	1
Charitable donations	3	3
Gifts to Canada	1(*)	0
Political contributions	2	1
Labour funds credit	2	0
CPP/QPP contributions	1(*)	0
UI contributions	1(*)	0
Home relocation loan deduction	1(*)	0
Stock option and shares deduction	1(*)	0

(\*) sampled in 1991 and dropped thereafter

#### Part B – EFILE and Paper Returns Tax Years 1993 and 1994

*Lack of consistency in line items selected for review limits Revenue Canada's ability to draw inferences about trends and patterns in voluntary compliance (\*\*).*



(\*\*) Future plans on random sampling found in Exhibit 25.9 – Department's Action Plan

Source: Analysis of departmental records



25.66, the matching statistics for the 1992 tax year indicate that the average dollar level of adjustment is much higher for EFILE returns than for paper returns, although the frequency of adjustment was the same for both types of returns. How this compares with the 1993 and 1994 tax years is unknown.

**25.48 Implementation.** We observed other weaknesses relating to the manner in which the Department carries out critical procedures related to the random samples. Those weaknesses also affect the Department's ability to effectively monitor changes in taxpayers' voluntary compliance.

**25.49** One key weakness pertains to the reliability of the compliance data captured by the Department following the verification of the random samples. We note that the Department devoted resources to reviewing more than 90,000 randomly sampled line items in order to derive representative baseline statistics on taxpayers' voluntary compliance for tax year 1992. However, because of inconsistently applied and monitored procedures for capturing essential information, the Department has indicated that the compliance data for that year are incomplete and potentially inaccurate. While the Department does not consider the 1992 tax year results to be suitable for inclusion in trend analysis, it does believe that they remain useful for refining its criteria for selecting returns for the non-random compliance sample. We question the basis of these conclusions, noting that the Department has not performed a substantive analysis of the sources of the data quality problems and of the consequences for data integrity. The Department informed us that it had instituted new procedures to improve the data capture process for the 1993 tax year. Even assuming that the 1993 tax year data

are reasonably accurate and complete, the Department has lost a year's worth of valuable data for learning about trends in voluntary compliance.

**25.50** We also found that not all sampled returns were reviewed for tax years 1992 and 1993, even though the Department's policy has been to review all returns chosen for random sampling. Adherence to such a policy is necessary to ensure that the results of the review are truly representative of the underlying populations.

**25.51** In addition to the potential inaccuracies both in the raw data gathered on the random samples, and in related tabulated statistics, we noted that the statistics themselves are not compiled on a timely basis. For example, statistics on the program carried out for the 1993 tax year were not available until March 1995. Similarly, the 1992 tax year results were not available until the fall of 1994. This long delay deprives the Department of important knowledge when modifying its programs in response to changing conditions. The Department informs us that it is pursuing modifications to its current systems to generate timely information.

**25.52** We also found that the Department had performed only a cursory analysis of the available statistics. The Department indicated that it considers the 1993 tax year random sample information to be the first truly reliable statistical information at its disposal, and intends to use this data in the future for a variety of statistical analyses and testing to derive information on taxpayers' voluntary compliance and to evaluate the effectiveness of its scoring criteria.

*Department's comments: The Department is of the view that the 1993 random sample of over 275,000 returns provides a sound basis for future comparisons. An*

Because of inconsistently applied and monitored procedures, the Department has lost a year's worth of valuable data for learning about trends in voluntary compliance.

The objective of non-random compliance sampling is to identify those returns for which the potential for revenue loss on specific line items of a return is the greatest.

*annual sampling plan focussing on key items and compared to base line data will be an effective basis for measuring compliance patterns.*

**Non-random sampling, meant to identify assessed returns that are most likely to require adjustment, has not produced the desired results**

**25.53** The objective of non-random compliance sampling is to identify those returns for which the potential for revenue loss on line items subject to processing review is the greatest. The criteria must identify returns that contain inaccurate claims far more effectively than simply choosing returns at random. By design, random selection can only be expected to pick out returns with average reporting characteristics, not returns that contain the most serious reporting errors.

**25.54** We were interested in seeing how effective the scoring criteria for the compliance samples were in identifying non-compliant returns and in generating additional revenue. We noted that the Department had not evaluated the effectiveness of these criteria since it first introduced non-random compliance sampling a few years ago. We performed a review of available statistics for the 1993 tax year. The results of our review heightened our concerns about the quality of the scoring criteria for this important program designed to protect tax revenues.

**25.55** In our 1993 audit, we noted that the criteria for scoring returns had not been empirically tested before they were implemented. Instead, they were based on the judgment and experience of program administrators. Although the Department has changed its criteria for scoring returns substantially since our audit in 1993, the new criteria (like the criteria used to establish confidence validities) are still evolving. Further, they continue to be

based on judgment rather than an appropriate combination of judgment and meaningful and objective statistical analysis of the results from prior years' verification activities.

**25.56** As illustrated in Exhibit 25.4, our analysis of the Department's scoring criteria for tax year 1993 returns suggests that the scoring criteria for many of the line items may be inadequate. We analyzed the performance of the scoring criteria for 9 line items subject to review on paper returns and 11 line items subject to review on EFILE returns. The line items we selected for analysis represent about two thirds of all line items randomly sampled for that year. The remaining one third of items was excluded either because the number of cases reviewed was insufficient for analysis, or because the incidence of reporting errors was relatively small. The analysis shows that for about half of the line items we selected, the scoring criteria were not markedly more effective than simple random selection in identifying returns with inaccurate claims and, therefore, generating additional revenue. The failure of these criteria to significantly outperform simple random selection on so many line items underscores our concerns about the Department's reliance on judgment-based criteria rather than an appropriate combination of judgment and objective statistical analysis for return selection.

*Department's comments: The original scoring routines were developed through the collaborative efforts of experienced Headquarters and operational program managers. The Department has made significant improvements each year, and remains committed to the introduction of more sophisticated techniques such as statistical analysis, artificial intelligence and neural network methodology to enhance effectiveness.*

## Statistics on Misreporting by Taxpayers

**Our analysis of departmental statistics suggests a worrisome increase in inaccurate information reported by taxpayers on both EFILE and paper returns, but particularly on EFILE returns**

**25.57** During our audit we wanted to analyze some initial information on taxpayer non-compliance for both paper and EFILE returns. For our purposes, we define non-compliance as the intentional or unintentional failure of taxpayers to accurately report correct amounts for specific line items on a return. Although our analysis is insufficient to draw firm conclusions about cause and effect, the

following observations present grounds for concern. Results from both the processing review and document-matching programs, covering a wide range of items on the 1992 and 1993 returns, show consistent evidence of a relatively large problem with inaccurate reporting of amounts on EFILE returns — a problem that grew substantially between the 1992 and 1993 tax years. This problem emerges during a period in which the EFILE participation rate has been increasing substantially. The results are all the more worrisome because paper filing requirements are beginning to converge with those of EFILE, and because detected non-compliance on paper returns has also increased.

**25.58** We have not audited the accuracy and completeness of the data that the

Exhibit 25.4

### Effectiveness of Scoring Criteria in Targeting Non-Compliant Returns

Line Item	EFILE	PAPER
Charitable donations	X	✓
Tuition fees	X	✓
Tuition/Education transfer	X	✓
Moving expenses	✓	✓
Equivalent to married	✓	✓
Child care expenses	✓	X
Medical expenses	✓	X
Northern resident deduction	X	X
Education amount	✓	X
RRSP contributions	X	Not Scored
Other deductions	✓	Not Scored

- ✓ Scoring criteria outperformed simple random sampling in generating additional revenue
- X Scoring criteria did not outperform simple random sampling in generating additional revenue

**Source:** Analysis of departmental records for processing review samples for the 1993 tax year



Results from both the processing review and document-matching programs, covering a wide range of items on the 1992 and 1993 returns, show consistent evidence of a relatively large problem with inaccurate reporting of amounts on EFILE returns. Detected non-compliance on paper returns has also increased.

Department used to derive its statistics, and some data integrity problems are known to exist. As indicated in paragraph 25.49, the Department itself notes that the statistics for the 1992 tax year are incomplete and may contain errors and that, in its opinion, the data for that tax year are not suitable for inclusion in trend analysis. Although we agree that the data quality problems for tax year 1992 do not permit a precise quantitative assessment of variations in non-compliance over time, we believe that the data are sufficiently robust to be reasonably useful for making a qualitative assessment of the changes in non-compliance for a number of specific line items on EFILE and paper returns between tax years 1992 and 1993. We observed that the number of cases reviewed for such line items is very large, as are the differences in average dollar adjustments between the 1992 and 1993 tax years. Moreover, the observed changes in non-compliance are overwhelmingly in

an upward direction. We therefore conclude that any data errors that are present would be unlikely to overturn our basic observations on the upward movement in non-compliance for both types of returns between the 1992 and 1993 tax years. More years of data are required to determine if this movement is temporary or permanent in nature.

**About 20 million personal returns are filed each year, and the proportion of those being filed electronically is increasing**

**25.59** Exhibit 25.5 details the volume of personal returns that Revenue Canada processed for the 1992 and 1993 tax years, along with the forecast volume for the 1994 tax year. About 20 million personal tax returns were processed by the Department in each of those years. The proportion of EFILE returns relative to paper returns is increasing. For tax year 1992, 2.1 million returns were

Exhibit 25.5

Statistics on Tax Returns  
Assessed and Refunds Issued

	TAX YEARS			
	1991	1992	1993	1994
Total tax returns assessed	19.0 million	19.4 million	19.9 million	20.0(*) million
EFILE tax returns assessed	442,033	2.1	3.2	3.9
Average tax refund—all returns	\$993	\$987	\$961	\$990
Average tax refund—EFILE returns	\$1309	\$1272	\$1256	\$1246
Percentage increase EFILE refund over average refund all returns	32%	29%	31%	26%

(\*) expected

Source: Departmental records



electronically filed, compared to 3.2 million returns in tax year 1993 and 3.9 million returns in tax year 1994. As indicated earlier in the chapter, electronic returns are processed more quickly than paper returns, and taxpayers need not submit supporting documentation when they file unless the Department asks for it.

**25.60** In order to draw inferences about the overall paper and EFILE return populations, we relied on data that were meant to be representative of these populations. To learn about non-compliance on various deduction and credit amounts reported by taxpayers, we examined statistics from the random samples of EFILE and paper returns that the Department reviewed for the 1992 and 1993 tax years. As noted earlier in paragraph 25.41, the random samples are a key part of the processing review verification activities.

**25.61** To learn about the extent of non-compliance associated with some of the more important line items not covered under processing review, such as wages, other income items and withholding amounts, we relied on available statistics from the Department's automated document-matching program. This program electronically compares information supplied by employers, banks and other third parties against information reported on tax returns. Because the program covers nearly every paper and EFILE return, the results are expected to provide a reasonable indication of patterns in non-compliance on the line items covered.

#### **Statistics on detected non-compliance are disturbing**

**25.62 Frequency of adjustment.** Exhibit 25.6 shows the frequency of detected errors in amounts reported by

taxpayers on various line items for paper and EFILE returns based on randomly selected cases for the 1993 tax year. The frequency of detected errors is defined as the proportion of returns in the random sample for a particular line item that required an adjustment to taxes assessed. Typically, these adjustments result in additional taxes assessed. We did not focus on year-over-year trends in the frequency of adjustment for paper and electronic returns since comparable figures on the frequency of adjustment were not maintained by the Department for tax year 1992.

**25.63** With respect to the 1993 tax year statistics, for 9 out of 13 line items selected for review on both paper and EFILE returns, the frequency of adjustment was higher for EFILE returns than paper returns, and on some items it was over twice as high. For the remaining four line items, the frequency of adjustment was similar for both types of returns. It is unclear if the observed differences in adjustment frequencies between EFILE and paper returns are attributable to differences in the characteristics of taxpayers using the two methods of filing, differences in the level of care being exercised by paper and electronic filers, or differences in the perceived opportunities for non-compliance across the two methods. For most line items reviewed, the frequency of adjustment was high, exceeding 10 percent for either type of return. In the case of moving expenses, the frequency of adjustment exceeded 40 percent for both EFILE and paper returns.

**25.64 Average dollar adjustments.** For purposes of our analysis, "average dollar adjustment" represents the average dollar amount of overstatement, taking into account both upward and downward changes to the deduction or credit under

review. As illustrated in Exhibit 25.7, we found that of the nine common line items that were randomly sampled for both EFILE and paper returns for the 1992 tax year, six showed substantially higher average dollar adjustments for EFILE returns than for paper returns. The other three had similar dollar adjustments for both types of returns. For tax year 1993, the pattern was more disturbing. Of the 13 commonly sampled line items for paper and EFILE returns in that year, 10 had substantially larger average dollar adjustments for EFILE returns.

**25.65** The statistics also show a general upward movement in average dollar adjustments for both EFILE and paper returns from the 1992 to the 1993 tax year.

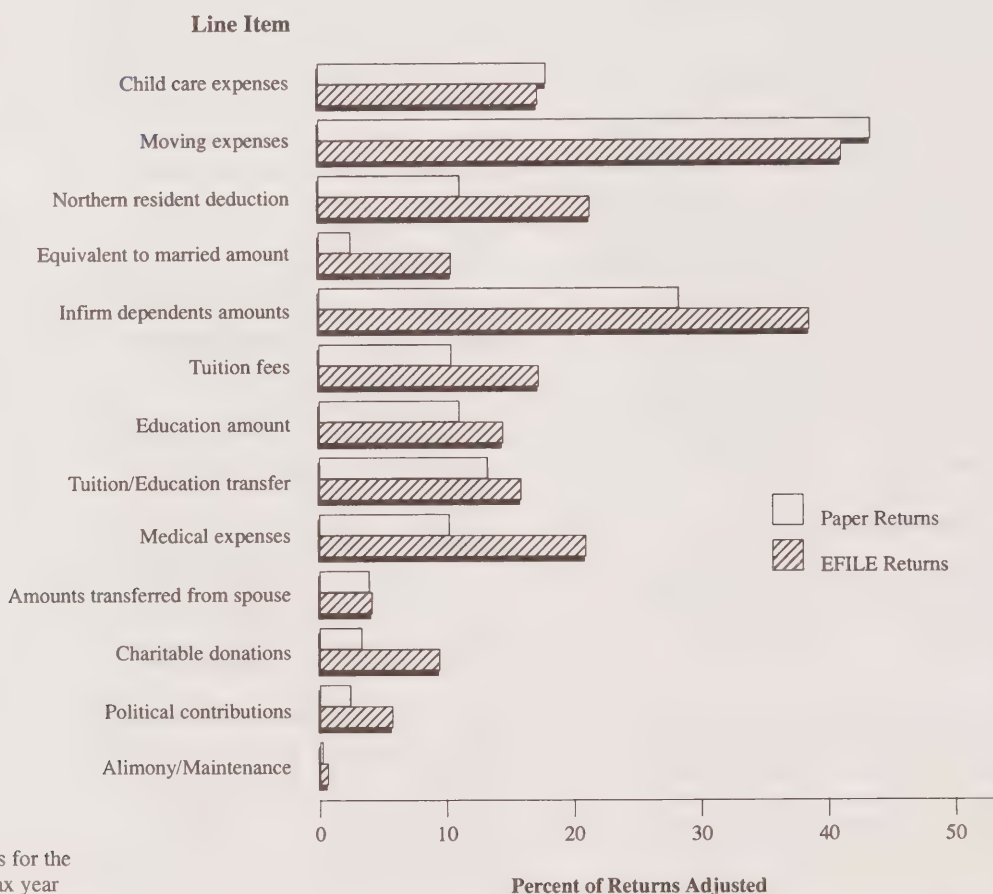
However, the dollar adjustment increases are more pronounced for EFILE returns. In our view, these results, when taken together with the above findings concerning the frequency of adjustment, are troublesome.

**25.66** Statistics derived from the automated document-matching program tell a similar story to that of the statistics derived from the random samples. Exhibit 25.8 provides details from the various 1993 document-matching applications, covering returns for the 1992 tax year. This year is the only year for which the Department has produced separate results for EFILE and paper returns. The results are consistent with our findings from the processing review program, showing that

Exhibit 25.6

**Frequency of Detected Errors for Tax Year 1993 Random Samples**

*For 9 out of 13 items selected ... the frequency of adjustment was higher for EFILE returns than paper returns, and on some it was over twice as high.*



Source: Departmental records for the random sample for the 1993 tax year

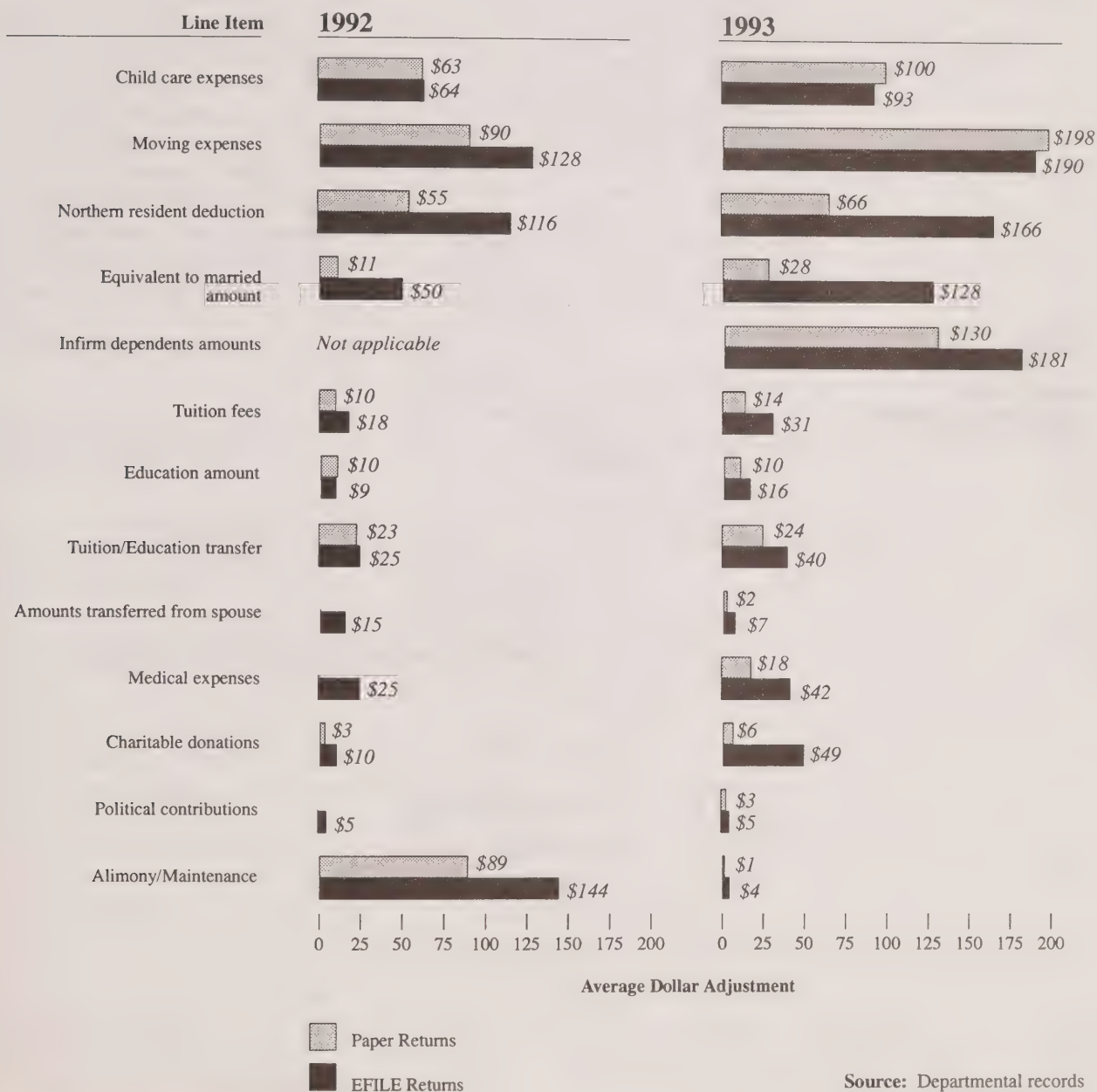
the average dollar adjustment tended to be substantially larger for EFILE returns in 10 of the 13 matching categories. For all categories, the average dollar adjustment for EFILE returns is 28 percent higher

than the average dollar adjustment for paper returns. The frequency of adjustment was similar, about 4 percent for both types of returns. Because comparable data are not available for

Exhibit 25.7

*The statistics show a general upward movement in average dollar adjustments for both EFILE and paper returns from the 1992 to the 1993 tax year. However, the dollar adjustments are more pronounced for EFILE returns.*

### Average Dollar Adjustments for Tax Years 1992 and 1993 Random Samples



Source: Departmental records



EFILE and paper returns since tax year 1992, we are unable to compare changes in non-compliance for the two return populations between 1993 and 1994.

*Department's comments: While the Department recognizes variation in the rate of adjustment as estimated from 1992 and 1993 random sample data, it is premature to conclude that there is a worrisome or disturbing increase in non-compliance. Results from the 1992 and 1993 matching programs\* (see below) indicate that the frequency of adjustment was 4 percent for both EFILE and paper returns. Further analysis of this data and data from the 1994 and 1995 tax years will be required in order to start drawing meaningful conclusions.*

*\* Subsequent to the completion of our audit, the Department informed us that it had generated additional statistics on the*

*document-matching program for tax year 1993. We are unable to comment on these statistics.*

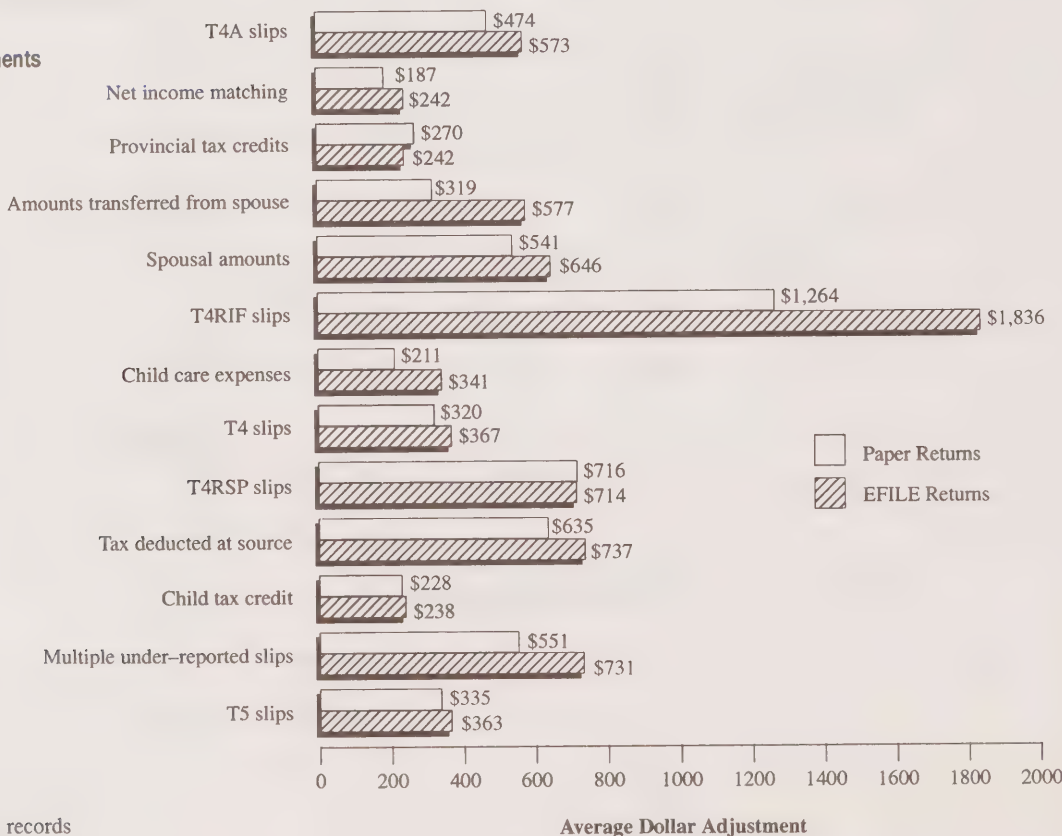
## Matching

### Bringing the document-matching program into play earlier could reduce many of the risks

**25.67** In 1993 we commented that the Department was leaving itself open to greater exposure to revenue loss because it was processing EFILE returns more quickly and without requiring receipts and information slips, while primarily relying on a post-assessment verification process. In our view, these factors have significantly increased the risk that the Department might fail to detect fraudulent or erroneous tax returns at the initial assessment stage. To reduce its exposure,

Exhibit 25.8

#### Matching Program Average Dollar Adjustments for Tax Year 1992



Source: Departmental records



we recommended that the Department perform automated document matching at the time of initial assessment. In 1993 we recognized that such a process would require information to be available earlier in electronic format. Therefore, at that time, we urged the Department to take steps to substantially increase the proportion of T4 slips filed on magnetic format.

**25.68** Two years later, we find that Revenue Canada has not progressed very far in this area, despite having expanded the new processing regime to include paper returns. Although matching at the time of initial assessment remains a longer-term objective, we observe that the Department has still not developed a plan for making front-end matching a reality. We noted that matching generated over \$200 million for 1993–94 (\$194 million in reassessments in 1992–93).

## Measuring the Effectiveness of the Back-End Review Process

### Revenue Canada still does not know how effective the processing review program is in protecting tax revenue

**25.69** One key recommendation in 1993 was that Revenue Canada should establish appropriate, reliable measures for evaluating how effective the back-end review process (processing review) is at generating additional tax revenue overall. This is important since examiners are following up on far fewer returns under the new regime. As well, the Department is targeting fewer line items on returns selected for review. The risk of not collecting a reasonable portion of what most likely is owing to the Crown for the entire population of returns is increased unless the Department establishes reasonable and reliable measures for

expected recoveries, monitors performance against these measures and takes corrective action as appropriate.

**25.70** In 1993 we noted that the back-end review process was meant to generate at least as much revenue as would have been generated by the up-front manual checking procedures that were eliminated. We observed in 1993 that recoveries under the new processing review program seemed to fare poorly in relation to departmental estimates of maximum possible recoveries for certain line items on paper returns. Using proxy measures, we noted that the new program might not generate as much additional revenue as was originally anticipated.

**25.71** We find that the Department still has not established any reliable measures to evaluate the effectiveness of its processing review program, despite being better equipped to do so considering the nature and type of data it is now gathering as part of the random samples. For the 1993 tax year, we observed that the total tax reassessments from the processing review program amounted to approximately \$47 million. How this figure compares to the potential total value of adjustments to assessed revenue remains unknown until the Department performs the appropriate analyses to measure this statistic.

**25.72** The Department informs us that it is beginning to use the results from the random samples for the 1993 tax year to develop estimates of the extent of reporting inaccuracies in the entire EFILE and paper return populations. These estimates are a necessary first step in developing a benchmark against which actual back-end recovery amounts may be compared.

## Summary and Conclusion

**25.73** In our 1993 audit, our view was that the Department had some catching up to do to ensure that its systems under the new regime for processing income tax returns were working effectively to protect Crown revenues. In particular, we were concerned about the design of recently instituted verification and compliance-monitoring programs, noting that these programs were still evolving and that some aspects were untested prior to nation-wide implementation.

**25.74** Two years after carrying out our audit, we continue to be concerned about the readiness of systems to contain risks of lost tax revenue. Our concerns are heightened because paper returns are now being processed in virtually the same way as EFILE returns. Under the new regime, substantially fewer returns are checked against supporting documentation prior to initial assessment. Rather the Department relies heavily on a processing review program that takes place after assessment, targeting far fewer returns and line items for review by examiners overall than under the old regime. Implicit in the new regime is the Department's objective to direct resources where risk of non-compliance appears to be greatest. However, the criteria used by the Department to target non-compliant returns are not producing the desired results and require further refinements to improve their effectiveness. Moreover, weaknesses in the design and implementation of the random samples under the processing review program compromise the Department's ability to monitor changes in voluntary compliance. The Department has not yet established reliable and appropriate measures to evaluate the performance of its systems to protect Crown revenues under the new returns-processing regime. The lack of

these measures hampers its ability to identify and correct any existing deficiencies in overall system design.

**25.75** Revenue Canada has not performed any substantive analysis of the data collected under its verification and compliance-monitoring programs. This is troubling. In our view, such analysis is necessary if the Department is to respond appropriately to contain the risk of revenue loss in response to changes in taxpayer reporting behaviour. Our analysis of departmental data on a variety of deduction and credit items suggests a worrisome increase in non-compliance between tax years 1992 and 1993 for paper and EFILE returns, but particularly for EFILE returns.

## Recommendations

**25.76** In light of our observations, we conclude that Revenue Canada should move quickly to correct existing deficiencies in its new regime for processing income tax returns. In particular, the Department should:

- ensure that all returns flagged under the confidence validity program are examined prior to the issuance of the initial assessment;
- verify all returns chosen for random sampling under the processing review program;
- institute appropriate controls to ensure that the data capture processes for all compliance-monitoring programs are complete, accurate and reliable;
- expand the scope of line items subject to random sampling under the processing review program with comparable year-to-year coverage for EFILE and paper returns, ensuring that the most significant line items are covered;
- ensure timely generation and analysis of statistics from the confidence

Revenue Canada has not performed any substantive analysis of the data collected under its verification and compliance-monitoring programs.

validity, fraudulent-refund-detection, processing review, matching, and other compliance monitoring and enforcement programs;

- employ appropriate statistical methods for analyzing trends and patterns in non-compliance, developing criteria for selecting returns under the confidence validity and processing review programs, and evaluating the overall effectiveness of the scoring criteria used to select returns;

- establish reliable measures for evaluating the effectiveness of the new processing regime and perform evaluations using these measures on a regular basis; and

- study methods and develop an appropriate action plan for bringing

matching forward to the time of initial assessment.

**25.77** In our view, such actions would promote an environment in which Revenue Canada would be more informed and better positioned to contain the risks associated with its new regime for processing income tax returns. The Department has provided an action plan (see Exhibit 25.9), which outlines a number of initiatives that deal with many of the observations noted in the chapter.

*Department's response: The eight recommendations of the Auditor General conform to the strategy that the Department had already stated and used as its guideline. The action plan attached covers the last elements of the strategy's implementation, and provides for ongoing enhancement and refinement.*

## Audit Team

Janet Blakely  
John Dunning  
Shahid Maqsood  
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For information, please contact Basia Ruta, the responsible auditor.



Exhibit 25.9

Department's Action Plan

In conjunction with the Auditor General's chapter on "The New Regime for Processing Income Tax Returns", Revenue Canada presents its plans for the processing program.

The re-engineering of the T1 processing regime commenced in 1991. Tax year 1994 was the first year that all operational elements of the new regime were in place. Current plans include enhancements to the scoring and document-matching processes. The items outlined below describe elements of the Department's plan.

- 1. The Department will continue to enhance the capture of comprehensive, reliable data from samples of assessed returns on an annual or periodic basis, and to use this data to monitor trends in non-compliance, to assist in the estimation of revenue at risk in the assessment process, and to aid in the refinement of the scoring systems.**
  - Specifications for an enhanced random sample for 1995 returns will be completed by the end of the calendar year (including sample sizes, coverage of EFILE versus paper and line items to be included); by June of 1996, the Department will have finalized its sampling strategy for the next three years, ensuring appropriate coverage to permit meaningful and timely comparisons.
  - The improvements made to the data capture process for 1993 and 1994 will continue to apply, including assurance that sampled records are actioned.
  - A Program Analysis Group has been put in place to do substantive analysis of program results.
  - Statistical analysis of data for tax year 1993 as the baseline for comparison has already begun; each year, trend analysis will be conducted on selected line items.
- 2. The Department will continue to refine and finalize the systems that select returns for review before and after assessment.**
  - The scoring and selection modules will be refined annually, and new ones developed, using a mix of methods, including objective statistical analysis, artificial intelligence techniques and informed judgment.
  - The development of neural network technology as a component of scoring will continue; a test is being conducted this fall on a single line item, and expansion to 10 items is planned for 1996.  
*(Note: Neural network technology is an artificial intelligence technology that uses statistical and mathematical techniques in combination with computer processing to evaluate relationships between multiple characteristics present on tax returns. It enables the Department to judge the need for review based on comparisons of the current record to others of a similar type and to previous history of the same filer.)*
  - The system logic will be changed by July of 1996 to ensure that all records selected via confidence validities will be examined either before or after assessment.
- 3. The Department will accelerate the timing of data analysis.**
  - Revenue Canada will expand the random sampling of the most significant line item data for the 1994 tax year to permit comparison with the findings from the 1992 and 1993 tax years.
  - Commencing in July 1996, it will be possible to use preliminary results from the processing review random sample to update the next year's confidence validity and processing review scoring modules.
- 4. The Department will formalize a framework for evaluation of the effectiveness of the new processing regime by June 1996, including a plan for periodic internal evaluation.**
  - Extrapolation from random sample results provides a preliminary estimate of potential adjustments for the entire population.
  - Additional appropriate evaluation criteria are being developed.
- 5. The Department will enhance its ability to do document matching at the time of assessment.**
  - The Department is now evaluating recommendations of a recently completed business case regarding the use of automated technology for the capture of third party information to enable computer-based matching of more income information at the time of initial assessment.
  - Implementation of this technology is expected within the next three years.
- 6. The Department will complete an integrated plan for monitoring compliance with EFILE preparation procedures and discounter compliance with provisions of the *Tax Rebate Discounting Act* for the 1996 filing season.**



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Report of the  
**Auditor General**  
of Canada  
to the House of Commons

Chapter 26  
Canada Infrastructure Works Program –  
Lessons Learned

**November 1996**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**Chapter 26**  
Canada Infrastructure Works Program –  
Lessons Learned



**November 1996**

*This November 1996 Report comprises 19 chapters, including “Matters of Special Importance”, as well as a Foreword and the Main Points from the May, September and November 1996 Report chapters. In order to better meet clients’ needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*



## **Chapter 26**

**Canada Infrastructure Works  
Program: Lessons Learned**

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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# Canada Infrastructure Works Program: Lessons Learned

*Assistant Auditor General: Maria Barrados*  
*Responsible Auditor: Henno Moenting*

## Main Points

**26.1** The Canada Infrastructure Works Program was introduced in 1994 as a \$6 billion cost-shared initiative, with the federal government to contribute up to \$2 billion and provincial and municipal governments and other project proponents the remainder. The program will be in operation until 1998–99. The program's basic approach has a number of advantages and its speedy implementation produced benefits when most needed. Within 24 months, 12,000 projects were approved and more than 60 percent of program funds were spent.

**26.2** About 60 percent of the funds supported investments in roads, bridges, and water and sewer networks. A further 21 percent were for municipal and other buildings and for engineering and related projects. Finally, 12 percent were for cultural and recreational facilities and 6 percent for education-related projects.

**26.3** Federal-provincial agreements were quickly established, setting out the program's administrative framework and dividing responsibilities between the federal and provincial governments on the basis of the comparative expertise of each. Because investments in local infrastructure are essentially a provincial/municipal responsibility, the federal government's involvement in, and control over, day-to-day implementation and delivery of the program is limited. Consequently, it needed to set out clearly its intentions for targeting and coverage, along with basic control and accountability requirements for this contributions program.

**26.4** The agreements set out the central objectives of the program — upgrading infrastructure and creating employment. However, in the program's design we found a lack of clear demarcation of the range of infrastructure eligible for funding; the definition used for "infrastructure" allows for a very broad interpretation. Further, there was a lack of clarity in the criteria for project selection and overall program coverage. For example, we found cases of assistance to firms involved in private sector and quasi-private sector activities such as a ski resort, a golf course, and extending natural gas distribution networks to private consumers.

**26.5** Most federal files we examined lacked information and analyses to support meaningful review of project proposals by federal officials and to justify approval of projects. In addition, there was insufficient effort by federal officials to verify the quality and completeness of information available at other levels of decision making.

**26.6** The agreements did not establish a clear requirement for compliance auditing. Except in Quebec, compliance audits were not implemented as quickly as they should have been. Further, federal program managers did not ensure that they would receive adequate ongoing information on the program's implementation and performance. We found also that environmental assessments needed to be strengthened.

**26.7** The program did result in additional infrastructure investment (and additional employment) in 1994, but likely not to the extent indicated by total program expenditures. We estimate that some 35 percent of program spending during the first year replaced normal capital spending that would have occurred anyway. One consequence is that the additional employment created directly by the program is likely to be less than the 101,000 short-term jobs announced by the government.

## Main Points (cont'd)

**26.8** The federal government, in co-operation with the provinces, completed a timely evaluation of the program that addressed key issues of program design and impact. By publishing its findings in September 1996, the government was able to use feedback on the program as one input for decisions on future directions. The evaluation reported on strengths and weaknesses in the program's design and implementation. However, it did not adequately address the extent of the program's success in triggering additional investment. Nor did it assess impacts on such secondary objectives as environmental quality and worker skills development.

## Introduction

### Local infrastructure is an important area of investment

**26.9** The Canada Infrastructure Works Program was introduced in 1994 to assist in the maintenance and development of infrastructure in local communities. For purposes of the program, “infrastructure” was defined as “physical capital assets in Canada instrumental in the provision of public services.”

**26.10** Investment in local infrastructure is important to maintain quality of life and, in some cases, to enhance the competitiveness of the local, regional and national economies — for example, through improved transportation networks. Although traditionally infrastructure development has been thought of in terms of roads, bridges, sewers and the like, recently it has been discussed in much broader terms — such as capital investments in educational, cultural and recreational facilities and other social services and in local access to computer-based information facilities and networks.

**26.11** In Canada, the development and maintenance of local infrastructure fall essentially under the jurisdiction of provinces and municipalities, and involve significant capital expenditures. For example, ongoing construction and repair expenditures by local municipalities averaged \$5.6 billion annually Canada-wide over the period from 1984 to 1994. Over the years, the federal government has occasionally provided financial aid to provincial and municipal governments to support investment in local infrastructure. As Exhibit 26.1 indicates, this assistance has taken the form of loans, unconditional transfers of funds to qualified applicants (grants) or,

alternatively, conditional payments (contributions).

**26.12** The Canada Infrastructure Works Program is a contributions program. This means that payment of federal funds is conditional on performance and on compliance with program requirements, which include conformity with program targeting and accountability for expenditures.

### The program’s rationale was linked to several factors

**26.13** Program-related material identifies four factors that supported this federal initiative to invest in local infrastructure:

- Targeted investment in infrastructure can produce a general economic stimulus, with short-term employment in construction likely to be the main impact.
- Investment in infrastructure can produce longer-term positive effects on productivity and employment as a result of, for example, improved transportation facilities and communications.
- Infrastructure needs to be upgraded. Prior to the introduction of the program, concerns had been raised about the state of local infrastructure in Canada.
- The limited resources available to governments to undertake the large investments involved in infrastructure imply that all three levels of government benefit from a co-ordinated, joint approach.

**26.14** Reflecting these and other factors, the program was to serve several objectives (Exhibit 26.2).

### The program was introduced as a temporary, \$2 billion federal initiative

**26.15** The Canada Infrastructure Works Program commenced in 1994–95, essentially as a two-year initiative, but with disbursements to be allowed over a

**The Canada Infrastructure Works Program is a contributions program. This means that the payment of federal funds is conditional on performance and on compliance with program requirements.**

**The program was to serve several objectives, including economic recovery, upgrading of infrastructure, employment creation, enhanced economic competitiveness and improved environmental quality.**



three-year period. The federal government agreed to contribute up to \$2 billion over that period, to be matched by \$4 billion from provincial and municipal governments. The 1995 federal Budget extended the program until 1998–99, but provided for no additional funding.

**26.16** Federal funds were allocated to provinces, territories and First Nations based on their respective shares of population and unemployment, both of which were given equal weight. Exhibit 26.3 identifies the resulting allocation.

**Federal-provincial agreements set out the framework for implementing the program**

**26.17** In early 1994, the federal government entered into a formal

agreement with each province and territory to implement the Canada Infrastructure Works Program. Under the agreements, the federal government would contribute one third of the eligible costs of approved projects, the remaining two thirds being the responsibility of the provincial and local governments and other local organizations involved.

**26.18** Among other things, the agreements set out the program's purpose, criteria for project selection, and the financial and operational responsibilities of the parties involved (Exhibit 26.4). This was the first time that such a framework had been established for a major infrastructure initiative by the federal government.

**26.19** The provinces are responsible for the selection, analysis and proposal of

Exhibit 26.1

**Selected List of Federal Programs Relating to Local Infrastructure Development**

Period	Federal Program	Form of federal financial assistance
1938 – 1949	<i>Municipal Improvements Assistance Act</i>	Maximum \$30 million in loans of which approximately \$7 million was paid out
1958 – 1968	Municipal Winter Works Incentive	\$267 million provided to municipalities in payments for 50% of direct payroll costs
1961–1974	Sewer Treatment Program	\$979 million in loans and \$131 million in grants
1963 – 1966	<i>Municipal Development and Loan Act</i>	About \$397 million in loans
1973 – 1979	Neighbourhood Improvement Program	\$100 million in loans and \$200 million in grants
1975 – 1978	Municipal Infrastructure Program	Over \$1 billion in loans and \$395 million in grants
1979 – 1984	Community Services Contributions Program	\$400 million in grants
1982 – 1986	Employment Creation Grants and Contributions Program	\$205 million in grants and contributions
1994 – 1998	Canada Infrastructure Works Program	\$2 billion in federal contributions, matched by \$4 billion from provinces and local governments

**Note:** This list of programs does not include regional development programs or agreements that may have contributed to the improvement of infrastructure.

**Source:** Office of the Auditor General



projects to be considered for funding. However, the agreements provide the federal government with an influential role in establishing criteria and guidelines for project selection. (Exhibit 26.4 shows the federal implementing departments for each province.) In addition, the federal government has the right to approve or reject individual projects proposed by provinces. The responsibilities of the federal and provincial governments are exercised through a joint federal-provincial management committee established in each province.

**26.20** The federal-provincial agreements establish the framework for implementing the program. Further, as Exhibit 26.5 indicates, the agreements between the federal government and the provinces are complemented by a series of arrangements between provincial governments and project proponents (mainly municipal governments). These arrangements are specific to each project and deal with such matters as project proposals, eligible costs, contribution limits, letting of contracts and project implementation.

#### **Six federal departments and agencies are involved**

**26.21** The lead minister for the program is the President of the Treasury Board, who is identified as the Infrastructure Minister. The Minister of Industry (responsible for Industry Canada and the three regional development agencies) and the Minister of Indian Affairs and Northern Development are responsible for implementing the program in the provinces and territories. The Canada Infrastructure Works Program Office, which reports to the Infrastructure Minister, co-ordinates the program centrally.

#### **Focus of the audit**

**26.22** We examined the extent to which the design and implementation of the program are consistent with the achievement of its stated objectives and provide for appropriate control and accountability from the federal government's perspective. The audit focussed on the program's activities in all ten provinces. We did not examine the First Nations Infrastructure Initiative or the activities in the two territories.

**26.23** In addition, we examined whether there is reasonable assurance that the government's review and evaluation activities have produced valid and reliable information on program results. We examined the coverage of issues, the adequacy of the methodology for results measurement, and the findings that were published by the government in September 1996.

**26.24** Taking into consideration the temporary nature of the Canada Infrastructure Works Program, we placed particular emphasis on lessons learned about what worked well and what operational areas need improvement.

**Federal-provincial agreements establish a framework for implementing the program.**

The purpose of the program was to provide a total of \$6 billion in investment in order to:

- accelerate the recovery of the national economy by creating short- and long-term employment through investment in local communities;
- upgrade the quality of Canada's physical infrastructure in local communities;
- provide for timely and effective employment creation and skills development;
- improve national, provincial and local economic competitiveness;
- promote improved environmental quality, including the introduction of environmentally sustainable practices and technologies.

**Exhibit 26.2**

#### **Range of Program Objectives**

**Source:** Canada Infrastructure Works Program Office, Canada Infrastructure Works Fact Sheet

These lessons could be applied to future initiatives of this type, and particularly to the possible extension or renewal of the existing program. Further details are presented at the end of the chapter in **About the Audit**.

## Observations

### The program was in place and operational soon after it was announced

**26.25** Timing is an important consideration for the cost effectiveness of the program, as it was intended to stimulate economic activity when it was most needed. Avoiding delays was an understandable concern.

**26.26** In November 1993, the Prime Minister wrote to all provincial and territorial leaders, inviting them to give priority to establishing the Canada Infrastructure Works Program to renew Canada's infrastructure and generate employment. Federal, provincial and territorial officials subsequently met to define the program and set out a general

framework and process for its implementation.

**26.27** At their meeting on 21 December 1993, first ministers agreed to sign federal-provincial and federal-territorial agreements governing the program. The agreements were in place by February 1994. After a basic preparation period of around two months, the program commenced operations.

**26.28** Although it is difficult to draw comparisons, in our view it usually takes longer — often more than twice as long — to put in place such a comprehensive set of agreements and administrative procedures. Moreover, we concluded that the basic approach has several strengths.

## Program Design

### The program's approach has a number of advantages

**26.29** We found a number of positive features in the provisions and the structure of the federal-provincial agreements across all provinces. The division of responsibilities between the federal and

Exhibit 26.3

#### Federal Funding Allocation

Provinces, Territories and First Nations	Federal Funding (\$ millions)	Distribution (%)
Newfoundland	49.153	2.5
Prince Edward Island	11.940	0.6
Nova Scotia	68.854	3.4
New Brunswick	51.143	2.6
Quebec	526.753	26.5
Ontario	722.370	36.3
Manitoba	68.257	3.4
Saskatchewan	57.710	2.9
Alberta	172.732	8.7
British Columbia	225.069	11.3
Yukon	2.189	0.1
Northwest Territories	4.378	0.2
First Nations (Reserves)	29.452	1.5
<b>Canada Total*</b>	<b>*1,990.000</b>	<b>100.0</b>

Source: Canada Infrastructure Works Program Office

\*Excludes \$10 million for program administration

provincial governments is based on the comparative expertise of each level of government. In general, investments in local infrastructure are a provincial/municipal responsibility. These two levels of government have experience in planning, financing and implementing such investments. Thus, in our view, it was appropriate that the federal government not become involved in project nomination or in "second guessing" the decisions made by the other levels of government on screening and selecting from initial project proposals.

**26.30** Such an approach also reduces overlap and duplication of functions,

which means that administrative expenditures overall can be reduced or, alternatively, that scarce staff resources can be allocated to other programs. Further, it reduces the need for duplicate program data systems.

**26.31** The approach also contributed to positive federal-provincial relations. In every region we visited, federal program officials described relations with their provincial counterparts in positive terms. We confirmed their assessment through discussions with provincial officials in a sample of four provinces. Federal-provincial relations were particularly positive in Alberta and

## Exhibit 26.4

## Federal-Provincial Agreements under the Program

	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
Federal Implementing Department <sup>1</sup>	WD	WD	WD	WD	IC	FORD-Q	ACOA	ACOA	ACOA	ACOA
Date of Agreement in 1994	18 Feb	18 Feb	14 Jan	14 Jan	24 Jan	7 Feb	14 Jan	14 Jan	21 Jan	9 Feb
Provinces assess/select/propose projects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Federal government must approve individual projects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Federal/provincial management committee provides final approval of projects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Municipal participation as voting member	No	✓	No	No	No	No	No	No	No	No
Program evaluation required	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compliance audit	Audit referred to but no clear requirement specified									

<sup>1</sup> WD: Western Economic Diversification Canada  
 IC: Industry Canada  
 FORD-Q: Federal Office of Regional Development – Quebec  
 ACOA: Atlantic Canada Opportunities Agency

Source: Canada Infrastructure Works Program Office



**The federal-provincial agreements generally focussed on two of the program's objectives: renewing and enhancing the quality of infrastructure, and creating employment.**

Manitoba, where jointly funded secretariats were established. Among other things, these secretariats provided a focal point for contact and information, and permitted the development of joint operational databases.

**26.32** The program's basic approach has a number of advantages, and its speedy implementation provided the potential to produce benefits when they were needed. Nevertheless, our audit also found a number of weaknesses in the program's design and implementation.

#### **Problems in the framework for achieving program objectives**

**26.33** A range of objectives was associated with the program: economic recovery, upgraded infrastructure, employment creation, skills development, enhanced economic competitiveness, and improved environmental quality. We identified this range of objectives from a variety of official government sources.

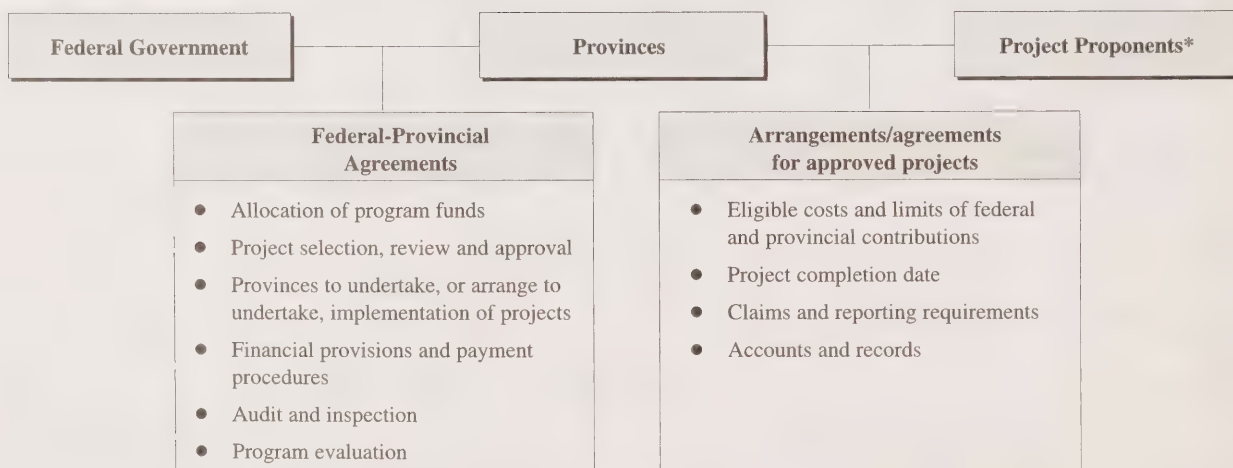
Not all of the sources contained the same list of objectives.

**26.34** The federal-provincial agreements generally focussed on two of the objectives: renewing and enhancing the quality of infrastructure, and creating employment. In most agreements, the other program objectives were incorporated as selection criteria for individual projects. Thus, the basic focus of the program is set out in the agreements.

**26.35** However, we identified problems in the framework for achieving program objectives, including a lack of clarity in the criteria for project selection and in the intended overall coverage of the program. We noted three key problems of definition: in the requirement to improve existing infrastructure "to community standards"; the definition of the term "enhancing economic competitiveness", one of the criteria frequently cited to justify project selection; and the meaning

Exhibit 26.5

#### **Program Implementation Model**



\*including provincial ministries and local municipalities and organizations

Source: Office of the Auditor General



of the term “infrastructure” (a program coverage issue).

**26.36 The requirement to bring infrastructure up to community standards.** This requirement is among the most important of the project selection criteria in the federal-provincial agreements. It relates directly to the achievement of one of the central objectives of the program. However, the federal-provincial agreements give no indication of what the term “community standards” actually means or how these standards should be identified. Program guidelines were subsequently developed in a number of cases but were usually general in nature.

**26.37** Of the sample of approximately 200 cases we examined, well over half contained references to “bringing infrastructure up to community standards” as justification for approving the projects. Yet, in the cases we looked at, specific community standards against which the state of infrastructure could be assessed had not been identified. As a result, in individual projects the nature or amount of investment required to meet community standards could not be determined clearly. In these circumstances, projects were approved frequently on the basis of vague justifications or of other selection criteria cited in only general terms.

**26.38** While individual community standards are for local communities and provinces to determine, we had expected to see an approach that would target scarce program resources where they were needed most. What we found was that many approved project proposals did not contain adequate analyses of infrastructure needs.

**26.39 Enhancing economic competitiveness.** Similarly, the criterion of “enhancing economic competitiveness”

was not clearly defined in the federal-provincial agreements. In our sample of 200 projects, at least one third had cited “enhancing the economic competitiveness” of a region or local area as an important reason to justify project approval. In these cases, “enhancing economic competitiveness” ranged from improving economic efficiency (for example, through improved roadways) to supporting the development of local parks that would make municipalities more attractive places to live. The latter is a quite different interpretation of competitiveness that involves a much longer-term, indirect effect that may or may not occur.

**26.40 The meaning of “infrastructure”.** As already noted, the definition of “infrastructure” is important in determining the program’s coverage. The federal-provincial agreements define it as “physical capital assets in Canada instrumental in the provision of public services.”

**26.41** This definition allows for a very broad interpretation. It was used, for example, to justify assisting investment by firms involved in private sector or quasi-private sector activities such as recreational services (for example, a ski resort and a golf course — see Exhibit 26.6) and extending natural gas distribution networks to private consumers. Approximately \$30 million in federal funds have been committed to four such projects in our sample. In some cases, this financial assistance may involve indirect subsidies to private sector activities. Traditionally, infrastructure assistance programs have focussed on the public sector. The scope of government assistance for infrastructure development merits clarification in any future federal-provincial agreements for programs of this type.

**The definition of “infrastructure” in the program allows for a very broad interpretation, and there was a lack of clarity in the criteria for project selection and overall program coverage.**

**It is important to have clear agreement on who is responsible for what, and to ensure that authority matches the requirements for accountability.**

**26.42** To facilitate appropriate allocation of program resources as well as accountability for results, it is important to have the program's objectives, project selection criteria and coverage identified as clearly as possible. The need for clarity is increased in light of the limited federal role. Where the federal government develops a program to achieve certain intended effects but is not itself involved in implementing key aspects of the program, the need for clear objectives and clear definitions of program coverage and criteria becomes paramount.

**Need for a clear statement of roles and responsibilities**

**26.43** Implementing the Canada Infrastructure Works Program involves six federal departments, ten provincial governments, two territories, and well over a thousand local governments or local project sponsors who, in turn, must contract with firms to implement projects. Consequently, the framework governing implementation is complex and involves many participants. This complexity is evident in the accountability relationships among the federal departments involved

in the federal-provincial delivery mechanism (see Exhibit 26.7).

**26.44** As described earlier (see Exhibit 26.5), the implementation of the program involves separate federal-provincial agreements as well as a variety of provincial-local agreements or other arrangements. Ultimately, to ensure accountability for implementing the program and achieving results, the federal government must rely not only on the provinces but also on parties who did not sign the federal-provincial agreements: the municipalities and other local organizations.

**26.45** In these circumstances, it is important to have clear agreement on who is responsible for what, and to ensure that authority (power to deliver) matches the requirements for accountability.

**26.46** Because the Canada Infrastructure Works Program is a contributions program, the payment of federal contributions is conditional on performance and achievement. Contribution agreements are subject to audit to satisfy the implementing federal departments that all conditions, financial and non-financial, have been met. We had expected that the federal-provincial

**Exhibit 26.6**

**Broad Definition of "Infrastructure"**

**A project supported under the program using the broad definition "physical capital assets instrumental in the provision of public services."**

- In October 1995, the federal government approved a contribution of \$450,000, matched by a provincial contribution of the same amount, to support the development of a new golf course.
- The golf course, which is on lands provided by a municipal body, is to be managed by a private club. The eventual ownership of the golf course will go to the club after it has made all payments to the municipal body for the value of the land and the development costs.
- One of the conditions for project approval was that the facility would be publicly accessible in terms of both playing access and reasonable green fees.
- Acknowledging that approximately one quarter of the funding for development of the project comes from public sources, the club agreed with the municipal body to make every effort to allocate 30 percent of all tee-off times to members of the general public at competitive green fees for at least 20 years.

**Source:** File Review, Office of the Auditor General

agreements would clearly specify the responsibilities of the parties involved, the corresponding accountability requirements and the need for appropriate monitoring and feedback information.

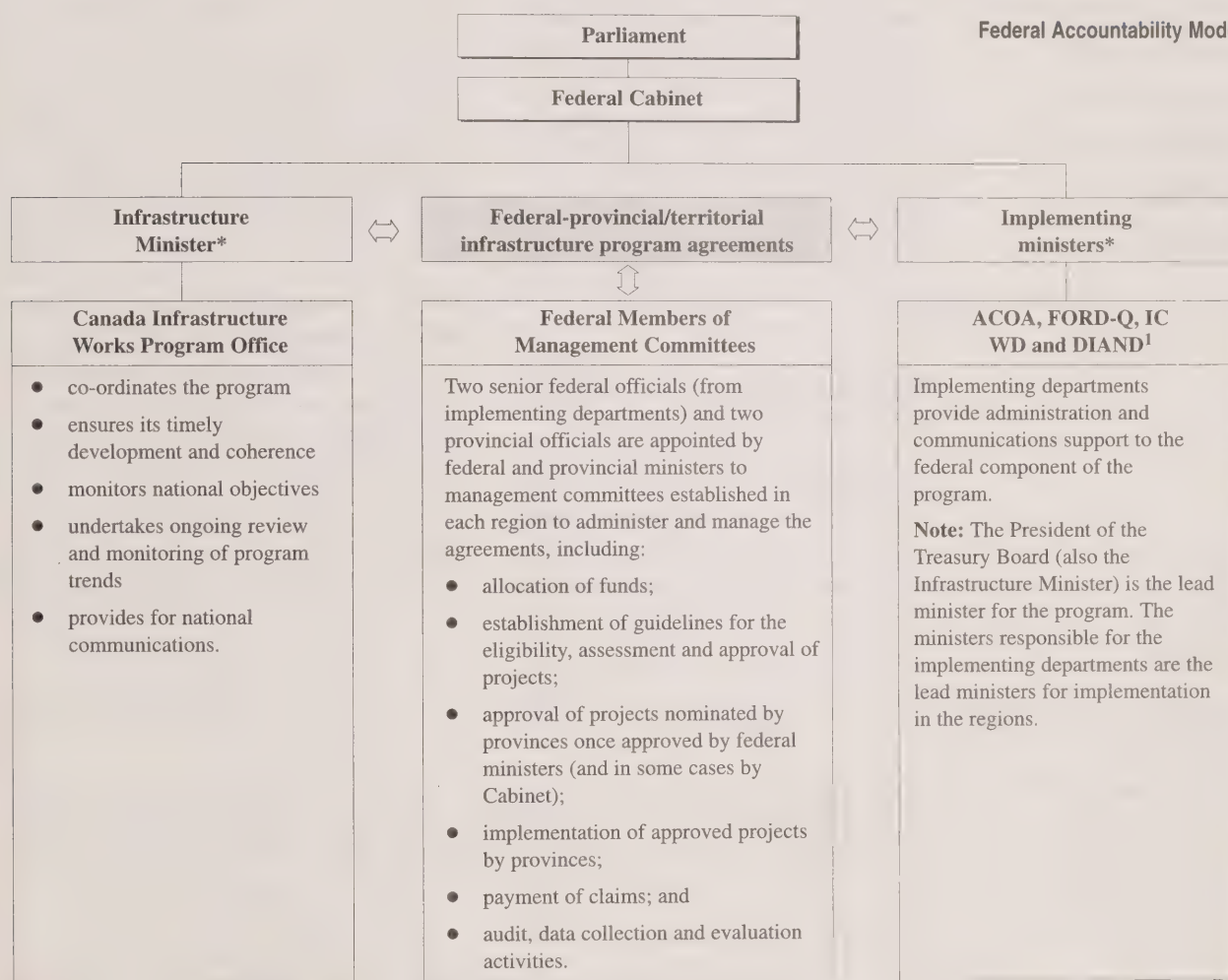
**26.47** We found, however, that the agreements do not clearly identify roles and responsibilities for providing ongoing monitoring and performance information and carrying out audits. Nor do they

stipulate the nature and timing of the information required. Consequently, although the federal government has a responsibility for the adequate implementation of the program, and accountability for it, it lacks the information needed to meet that responsibility.

**26.48** We found too that roles and responsibilities for assessing projects and

Exhibit 26.7

## Federal Accountability Model



\* Signatories to federal-provincial/territorial agreements.

- 1 ACOA: Atlantic Canada Opportunities Agency  
 FORD-Q: Federal Office of Regional Development – Quebec  
 IC: Industry Canada  
 WD: Western Economic Diversification Canada  
 DIAND: Department of Indian Affairs and Northern Development

Source: Office of the Auditor General



In many provinces the program was implemented in a manner that was not consistent with maximizing its potential to generate additional investments.

applying project selection criteria at the federal level were not always clear. Federal program managers indicated that these were essentially provincial responsibilities.

#### Provisions are required to permit adjustments as problems emerge

**26.49** We noted that the federal-provincial agreements do not provide adequately for administrative remedies in the event that problems arise (for example, by establishing agreed-upon processes and timeframes to remedy any problems or cases of non-compliance by either party). This lack of flexibility may impose additional administrative and program costs, given the inability to respond swiftly when feedback on program performance indicates a need for change.

**26.50** We noted in certain provinces, for example, the very lengthy process involved in amending the federal-provincial agreements to extend their duration. This was a problem where limited time for program uptake indicated that it would be necessary to extend the

deadline for project approval beyond the initially agreed dates.

**26.51** As a result, the processing of some project proposals was delayed. In view of the priority attached to the timely implementation of this program to support economic recovery and employment creation, provisions to facilitate administrative adjustments as problems emerged would have been helpful.

#### Procedures to ensure additional investment were inadequate in most cases

**26.52** The program was intended to result in additional investment activity. In other words, it was expected to result in infrastructure investments over and above those that would have been made in its absence.

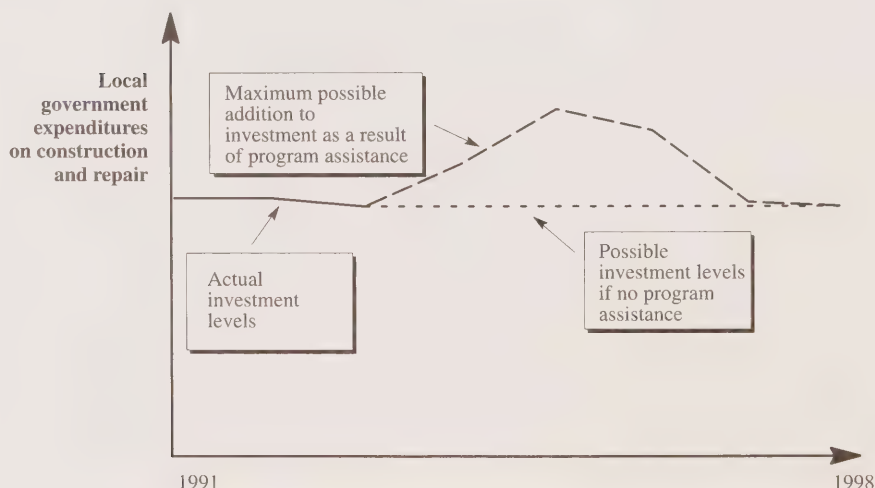
**26.53** The requirement to produce additional investment is central to the program's success and cost effectiveness. Yet in many provinces the program was implemented in a manner that was not consistent with maximizing its potential to generate additional investments.

**26.54** The issues surrounding this additional investment requirement are

Exhibit 26.8

#### Illustration of Program's Intended Incremental Effect

(Maximum Possible Addition to Investment Levels)



Source: Office of the Auditor General of Canada



illustrated in Exhibit 26.8. As the exhibit indicates, additional investment effects are of central concern because they are directly tied to the issue of whether the program has made a difference and, if so, to what extent. If, for instance, federal funding subsidies were simply used to pay for part of an investment in infrastructure that otherwise would have been made anyway, then the program would produce no net infrastructure benefits; nor would it create additional employment.

**26.55** As the exhibit illustrates, additional investment during a particular period occurs when the program leads to investment that would not have occurred otherwise. One way of achieving this is to move forward investments planned for a later date while proceeding with the other investments planned for the current period. Alternatively, new investments (which might otherwise have been excluded from consideration altogether because of lack of funds) may be undertaken in addition to previously planned infrastructure investments.

**26.56** We examined guidelines on the requirements for additional investment that project proposals had to meet to be eligible for funding. Although national guidelines indicated that all projects were expected to be incremental to current capital plans, or to accelerate what was planned, our examination showed that

local guidelines did not always stipulate that meeting the additional investment requirements was a mandatory condition. In seven provinces, project applicants were required to certify that an additional investment was being undertaken, and in three of them there were provisions for subsequent audit to confirm that the investment activity had indeed been additional. In other provinces, no such certification or audit activity was required.

**26.57** We also noted that provisions requiring additional investment were applied mainly to individual projects, rather than to overall levels of investment by municipalities (Exhibit 26.9). Applying the guidelines to individual projects raises the possibility that, while a given project can represent a new investment, it may simply replace another project (or group of projects) dropped because it had already been planned and is therefore ineligible under the program.

Exhibit 26.10 illustrates with an actual case study undertaken by the government.

**26.58** In such a situation, the overall level of investment in the municipality will not be increased by the value of the approved project. In an extreme case, there may be no net increase at all.

**26.59** A different approach to ensuring additional investment — based on total infrastructure investments — was followed in Quebec and by the

Individual Project Basis	Total Investment Basis
<ul style="list-style-type: none"> <li>Eligibility for program support depends on whether the individual project is “new” or is moved forward (i.e. was not planned for implementation during the current period).</li> <li>Such a new or accelerated project is eligible under the program whether or not infrastructure investment increases overall.</li> </ul>	<ul style="list-style-type: none"> <li>Eligibility depends on whether the proposed investment represents a net increase over some total predetermined level of investment in local infrastructure.</li> </ul>

**Exhibit 26.9**

**Program Guidelines on  
Additional Investment**

Individual Project Versus Total  
Expenditure

**Source:** Office of the  
Auditor General

Saskatchewan Association of Rural Municipalities.

**26.60** In Quebec, the program was implemented with a requirement that each municipality maintain a predetermined level of overall capital investment in its local infrastructure to be eligible for program funding for additional infrastructure investment. In this way, the projects funded can be regarded as increasing the level of investment.

**26.61** The predetermined investment level required for each municipality needs to be set realistically in relation to the municipality's infrastructure investment levels in recent years. When this is done, the program's intended result of producing the maximum possible additional investment activity is much more likely to be achieved.

**26.62** The Saskatchewan Association of Rural Municipalities adopted a similar approach and submitted a global proposal for rural road construction (containing many individual local projects). In this case, the applicant sought support for rural road expenditures that exceeded the 1993 province-wide expenditure level and were, therefore, more likely to be additional investment (Exhibit 26.11).

**Exhibit 26.10**

**Program Assistance for New Projects Displaces Other Project Activity**

- A small town (population 6,500) had secured agreement from the provincial government to fund 40 percent of the estimated \$13 million cost of a secondary sewage treatment plant.
- The town's share of the project would have stretched its reserves.
- The project was not eligible under this program, because it had already been planned.
- The project was put on hold by the town and replaced by other, lower-priority projects that were eligible under the program because they were new.

**Source:** Program Review, Canada Infrastructure Works Program Office

**26.63** The more global approach followed under the program in Quebec and by the Saskatchewan Association of Rural Municipalities has the potential to avoid the pitfalls of the "individual project approach" in attempting to secure additional investment in local infrastructure. However, the more global approach still needs to be improved, as identified in Quebec.

**26.64** In his 1995–1996 report, the Auditor General of Quebec examined how well the additional investment provisions established under the Canada-Quebec agreement had been implemented in that province. The report identified areas where we agree that there are important concerns:

- Some 88 municipalities obtained a reduction in the required level of ongoing infrastructure investment commitments. In a number of cases the justification for downward revisions and the basis for the calculations made were not included in the administrative files. In these cases the Auditor General of Quebec expressed concern about the lack of transparency of the process, given the absence of documented justification for the decisions.
- Capital investments in water purification and distribution facilities were excluded in arriving at the threshold level of infrastructure investment in each municipality, although this was not provided for in the federal-provincial agreement.
- Government subsidies for infrastructure categories included as part of the municipalities' investment thresholds were not deducted, although the federal-provincial agreement provided for doing so.

**26.65** In our opinion, there is a need to clarify further whether the predetermined level of investment required for a municipality to be eligible for program support should relate only to the

municipality's own investment expenditures or to the total capital investment (including other government subsidies) in its infrastructure.

## Program Implementation

### Most program expenditures were for roads, bridges, water and sewer networks

**26.66** Exhibit 26.12 shows that over 12,000 projects have been approved, with eligible costs of about \$6.5 billion and a total federal share of \$1.9 billion. As of 31 March 1996, total federal expenditures amounted to approximately \$1.3 billion.

**26.67** Sixty percent of the eligible costs were for approved projects in the so-called "traditional" infrastructure categories — roads, bridges, and water and sewer networks (Exhibit 26.13). A further 21 percent were for construction, maintenance and upgrading of municipal and other buildings and for other engineering and related projects. Approximately 12 percent of eligible costs were for cultural and recreational facilities and six percent for education-related projects.

### Departmental project files generally lacked sufficient information for meaningful federal review

**26.68** We examined the basis on which federal officials had approved individual projects. We expected to see evidence that their decisions had been supported by information and analyses to help ensure that the projects approved were those most likely to contribute to achieving the program's objectives.

**26.69** Program guidelines do not require that projects meet all criteria to be eligible for support. Project approvals were usually justified on the basis of several selection criteria. Examples

included not only those already mentioned (such as meeting community standards and enhancing economic competitiveness) but also such criteria as introducing new technologies or developing the skills of local workers.

**26.70** Most of the 200 project proposals we examined lacked persuasive analysis of the projects against selection criteria. While some proposals for large and complex projects contained more detailed analysis, the majority of project proposals were prepared in qualitative and often vague terms, with no data to back up the claims they made. Such proposals, in our view, were difficult for federal officials to assess realistically. Further, in our review of federal files we found very limited evidence that federal officials had sought additional information or that projects had been rejected because they failed to meet project selection criteria.

**26.71** Several program managers made the point that, as a consequence of the program's design, the initial project screening and assessment had been done

**Most of the 200 project proposals we reviewed were prepared in qualitative and often vague terms, with no data to back up the claims made.**

#### Example of application of additional investment requirement that shows positive results

- A provincial association of rural municipalities sought financial assistance for additional rural road expenditures that exceeded the 1993 province-wide expenditure level of \$10.6 million.
- Federal contributions totalling approximately \$10 million were authorized, representing one third of the eligible costs.
- A recent provincial analysis indicated that expenditures on rural road projects had increased dramatically, from \$13.8 million in 1993-94 to \$23.7 million in 1994-95, and to \$33.9 million in 1995-96.
- This represents an increase in total province-wide expenditures on rural roads of \$30 million over the two-year period.

Exhibit 26.11

**Additional Investment Requirement Based on Defined Expenditure Level**

**Source:** File Review, Office of the Auditor General



**We found that justifying project selections and verifying provincial activities under the agreements were generally not high priorities for federal officials. There were few plans for timely compliance audits.**

by the provinces before proposals were submitted for consideration by the joint management committees. However, in our view — given that the federal government had accepted the responsibility for approving projects — the requirement still remained for federal officials to review and make recommendations on proposals selected for consideration based on adequate information.

**26.72** In the majority of files we examined, federal officials endorsed provincial assessments without requiring direct supporting information, or at least ensuring that appropriate information had been provided to, and analyzed by, the province concerned.

**26.73** For example, in determining whether projects would represent

additional investment by a municipality over and above what would otherwise have occurred, federal representatives often accepted provincial assessments made simply on the basis of a declaration by the applicant, without any supporting information or analyses.

**26.74** Moreover, we found that justifying project selections and verifying provincial activities under the agreements were generally not high priorities for federal officials. We noted few plans for timely compliance audits. In the majority of cases, particularly with respect to verifying compliance with program terms and conditions and project selection criteria, the timing of audits was too late to make a difference in dealing with some of the problems we have identified.

#### Exhibit 26.12

#### National Summary of Program Activities

Province/ Territories	Allocation of Federal Program Funds (\$ millions)	Number of Projects Approved as of 2 August 1996	Total Eligible Costs Approved Projects (\$ millions)	Federal Share of Project Costs (\$ millions)
British Columbia	225.1	414	675.0	224.8
Alberta	172.7	1445	564.3	170.3
Saskatchewan	57.7	1154	274.1	55.9
Manitoba	68.3	386	209.8	59.6
Ontario	722.4	5035	2287.8	710.7
Quebec	526.8	2397	1798.7	496.5
New Brunswick	51.1	211	162.7	50.0
Nova Scotia	68.8	314	217.8	67.5
Prince Edward Island	11.9	105	42.8	11.5
Newfoundland	49.1	279	145.1	48.5
NWT	4.4	139	13.0	4.2
Yukon	2.2	34	8.0	2.2
First Nations	29.5	249	91.1	29.5
<b>Total</b>	<b>*1,990.0</b>	<b>12,162</b>	<b>6,490.2</b>	<b>1,931.2</b>

\*Not including \$10 million for program administration

Source: Canada Infrastructure Works Program Office



**26.75** The wide range of projects actually supported, and the vague justifications and analyses that formed the basis for federal approval of many project submissions, led us to conclude that with some notable exceptions, lack of information in project files made it difficult for federal officials to undertake a meaningful review of project proposals.

#### **A more effective control regime was implemented in Quebec**

**26.76** Generally, lack of information supporting federal project approval and the lack of timely compliance audits are of concern. In Quebec, however, a more effective control regime was set in place, supported by a strong and timely audit function.

**26.77** Federal program officials reached an agreement with the provincial department concerned to set in place a system of compliance audits of a sample of municipal government investment projects. These audits had to be completed before the final payment of financial assistance. The compliance audits were accompanied by provisions for sanctions

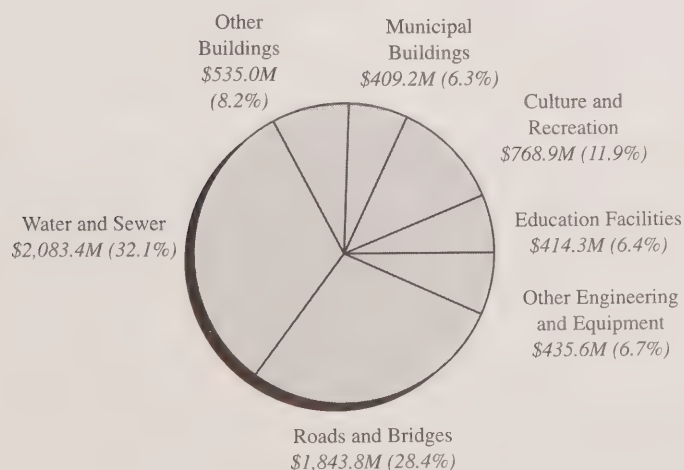
established by the provincial government in the event that approved municipal projects had not met key criteria for project eligibility (Exhibit 26.14).

**26.78** Under this approach, the program was implemented with a framework of clear responsibilities and program controls. This provided the basis for the partners in the federal-provincial agreement to discharge their obligations.

**26.79** In our judgment, this arrangement has the potential to meet the federal government's requirements for assurance of compliance with essential conditions of the program. The quality and the coverage of the compliance audits undertaken by the Quebec government are currently being examined by the federal implementing department concerned.

#### **Financial management and control of program expenditures need to be improved**

**26.80** We expected to find sound financial management and controls and compliance with relevant Treasury Board policies and directives.



Total eligible costs: \$6,490.2 million

**Exhibit 26.13**

#### **Approved Projects by Class of Infrastructure**

**Source:** Canada Infrastructure Works Program Office

**Adequate controls supported by a sound system of audits are important to safeguard federal expenditures.**

**26.81 The eligibility of salaries of local proponents' employees charged as costs to infrastructure projects needs to be examined.** Project applications and submitted claims for many approved projects include salaries as part of the eligible costs. For example, approximately 50 percent of the projects we examined in one province included costs of salaries in project costs.

**26.82** Under the agreements, eligible costs cannot include costs for services or work normally provided by the federal government, the province or local government concerned or any other agency. Given this requirement, it appears that eligible salary costs must be clearly related to an additional area of work beyond what is done in the normal course of operations. Otherwise, the federal government would be subsidizing the applicant's regular ongoing payroll.

**26.83** We noted that in some cases costs of salaries were claimed and paid although they had not been clearly identified as project costs in the approved application. These cases accounted for roughly 10 percent of our sample in two provinces. In still other provinces, salary costs were not even required to be identified clearly and separately on project applications.

**26.84** In our view, the federal departments implementing the program need to address concerns about the appropriateness of charging certain items. This was not done adequately in all cases.

**26.85 A sound system to audit contributions is required.** Program managers are responsible for determining whether recipients of program funds have complied with the requirements of applicable contribution agreements. We noted that, for the program overall, few plans for audits of contribution recipients had been established in the early part of implementation — even though in a number of cases it was evident that audit of recipients was a concern.

**26.86** Systems and process audits and reviews were undertaken in a timely manner in the four Western provinces. Further, as already noted, in Quebec there has been a considerable audit effort. But similar arrangements were not implemented in other provinces, and the federal-provincial agreements did not specifically provide for them. In our view, a more comprehensive and co-ordinated effort is required for future initiatives of this type to produce a timely audit effort of adequate quality.

**26.87** The limited audit work done has found that controls over the payment of claims relating to holdbacks are

Exhibit 26.14

Compliance Audit Activity

**Audit of compliance with program selection criteria**

In Quebec, the provincial department concerned has established an audit process to examine selected claims before making final payments to project proponents. In a December 1995 audit report, the provincial department noted that some projects had not met certain selection criteria:

- Three municipalities did not fulfill the requirement to meet a minimum level of capital expenditures in order to receive program support. As a result, two of them had their financial support reduced by the amount of the shortfall. The third municipality agreed to increase its capital works spending level in the following year by the amount of the shortfall.
- Fourteen municipalities did not hire additional staff for their projects to meet the criteria for employment creation. They received cuts in their financial support.

Source: File Review, Office of the Auditor General

inadequate. Holdbacks are portions of payment claims withheld pending a satisfactory assessment of the quality of work undertaken under a contract or sub-contract.

**26.88** The federal-provincial agreements require the federal government to make payments to the provinces for its share of approved eligible costs of projects, on the basis of progress claims setting out the costs actually incurred and paid. However, in five municipalities sampled, audits conducted by a provincial internal audit group found payments by federal and provincial governments totalling approximately \$1.6 million each, mostly related to holdbacks that had been claimed by the municipalities concerned but not yet paid to the contractor.

**26.89** A different audit identified a similar situation in another province; in that case the amount involved was approximately \$785,000.

### **Environmental assessment of projects needs to be strengthened**

**26.90** All projects recommended for approval are subject to federal environmental assessment. The federal implementing departments are responsible

for ensuring that these assessments are undertaken.

**26.91** Federal program officers screened the projects for adverse environmental effects mainly on the basis of information submitted by applicants. The information provided, however, was often quite limited. Furthermore, procedures and documentation varied among departments.

**26.92** In one region we noted that in many cases officers did not provide definitive answers to important questions in the standard questionnaire used for screening. For example, they checked “unknown” to such questions as: Will the project be located near a watercourse? Will it affect the health of humans? In several other regions, many screening decisions were made without adequate details having been provided and, in some cases, without adequate consideration of all of the elements involved. Exhibit 26.15 shows such an example.

**26.93** We also found that some projects had been approved and work begun before an environmental assessment was completed. Federal implementing departments can withhold payments until environmental assessments have been completed and mitigating measures taken. However, it is more difficult to withdraw support for projects once funding

#### **Example of a project approved without an adequate environmental assessment**

- In May 1994, a federal contribution of \$7.18 million was approved for a project with eligible costs totalling \$21.54 million, to construct a grade-separated interchange, including a railway underpass.
- The federal department concerned indicated in its environmental screening registration that there were no significant impacts, without providing any details.
- In January 1995, the department had to withhold a second payment after receiving information about soil and groundwater contamination caused by the project. The environmental screening decision was subsequently amended in April 1995 to include mitigation conditions for this environmentally sensitive project.

#### **Exhibit 26.15**

#### **Environmental Assessment of Projects**

**Source:** File Review, Office of the Auditor General



commitments have been made. Consequently, meeting the requirements for environmental protection means that departments must ensure that potential adverse effects and mitigating measures are identified before irrevocable funding decisions are made.

## Review and Reporting

**26.94** Program review includes ongoing monitoring of program performance as well as a more in-depth, retrospective assessment of the program (program evaluation).

### Little or no ongoing performance reporting

**26.95** We believe ongoing monitoring and reporting of performance is important for program control and accountability at the federal as well as intergovernmental levels. Among other things, it can lead to timely adjustments to program design and implementation where necessary. Further, the information can support management accountability within the implementing departments. Finally, ongoing performance information can form the basis for accountability reporting to Parliament.

**26.96** However, we found little or no ongoing performance reporting. The federal-provincial agreements are not clear on requirements for performance information, including the type of information needed, how frequently it should be provided and by whom. Further, the federal files we examined contained little or no monitoring information on individual projects to show their actual impacts on employment as the projects proceeded, the state of work in progress, the extent to which additional investment requirements had been respected, any worker training being provided, and the like.

### There are questions regarding the program's estimates of employment created

**26.97** The program's effectiveness in creating employment relates to one of its key objectives. Information on employment creation is central to providing appropriate accountability to Parliament and to contributing to an informed debate on what the program has achieved in relation to costs incurred. Because of the importance of the program's employment creation objectives, and the publicity given to its potential to create employment, we examined the government's approach to estimating and reporting on its employment effects.

**26.98** The government has indicated that about 101,000 short-term jobs will have been created by the program during the period of its operation. Further, it has estimated that an additional 9,200 longer-term jobs will be created as a result of the new infrastructure put in place.

**26.99** The longer-term employment estimates were based on information in project applications. In the sample of projects we examined, however, we found problems with the reliability of estimates of longer-term jobs in the program's database. We confirmed this in discussions with program officials.

**26.100** The estimate of the short-term employment impacts is basically derived from Statistics Canada's data on employment effects associated with given levels of investment. The Statistics Canada figures are based on the historical track record of investment expenditures in generating direct employment, both on-site (where the infrastructure is being developed or upgraded) and off-site (supplies and services provided).

**We found little or no ongoing performance reporting.**



**26.101** We examined the strengths and limitations of this approach to estimating the program's direct employment effects. We concluded that while the approach has several strengths, it is not appropriate to rely on such estimates alone. Our conclusion applies to individual projects as well as to the program as a whole.

**26.102** The approach uses a well-established methodology to provide a consistent across-the-board framework for estimating employment effects in each province. In addition, it provides information on the off-site employment effects, which are otherwise difficult to measure. These are important strengths and represent a considerable improvement over past practices in estimating the employment effects of government-funded projects.

**26.103** However, the approach can produce questionable results in estimating what is actually occurring at the level of individual projects (see example in Exhibit 26.16). As the exhibit indicates, estimates produced by the approach were adjusted downward by 15 percent after program management compared the figures with on-site operational data for the project. Even after this adjustment,

unexplained differences remain between the two sets of employment estimates.

**26.104** Further, even for employment estimates at the provincial and national levels, there are questions in view of unexplained differences between the estimates and available operational data on completed projects. For example, we found that in one province the employment estimates from the Statistics Canada model were about 20 percent higher than employment indicated by operational data from a sample of completed projects.

**26.105** Finally, the approach does not distinguish between full-time and part-time work. The Canada Infrastructure Works Program Office has indicated that further work is planned in this area.

**26.106** In the context of this audit, the issue is not the reliability of Statistics Canada data. Rather, the issue is the appropriateness of relying exclusively on this approach to determine the amount of employment created directly by the program. We believe there are sound reasons for supplementing the on-site employment estimates derived using the Statistics Canada approach with other sources of information, including

#### Significant differences in employment estimates using the Statistics Canada input-output model

- A large project approved under the program with eligible costs totalling \$206.6 million is expected to be completed in March 1997.
- Applying the original factors in the Statistics Canada model, an estimated 1,766 person-years of on-site employment are associated with the investment.
- In response to information that the employment estimates were significantly higher than the proponent's estimates, the Canada Infrastructure Works Program Office revised the Statistics Canada factors for the type of construction involved in the province to 85% of the original factors produced by the model. Based on this, the government announced an estimated 1,500 direct on-site jobs for this project.
- A recent evaluation case study reported actual and projected short-term jobs involved to completion of the project as approximately 42,067 person-weeks (equivalent to 1,052 person-years).

#### Exhibit 26.16

#### Estimates of Employment Impact

**Source:** Program Review, Canada Infrastructure Works Program Office

The limitations of estimates of employment created by the program need to be pointed out in reporting them to the public and to Parliament.

The government has claimed that the program will create approximately 101,000 short-term direct jobs; our analysis suggests that the real level will likely be lower.

operational data from ongoing monitoring of individual projects.

**26.107** In addition, we believe the limitations of the estimates ought to be pointed out in reporting them to the public and to Parliament. This was not always done. For example, the 1996–97 Estimates Part III of the Treasury Board Secretariat note that “total program expenditures by the three levels of government...will have created about 74,000 jobs during the first two years...” The basis for this number was not explained, and no allowance was made for any possible shortfall in the program’s additional investment effects (see paragraphs 26.116 to 26.122). Our analysis of additional investment effects suggests that the real levels of additional employment created directly by the program were likely lower than those announced by the government.

#### **We examined the government’s evaluation of the program**

**26.108** We expected that the federal government (in consultation with its partners) would have established satisfactory procedures to measure and report the program’s effectiveness, where such procedures could appropriately and reasonably be established.

**26.109** For a temporary initiative such as the Canada Infrastructure Works Program, which has a duration of only five years, the main potential of program evaluation lies more in providing strategic feedback on results to assist in future program initiatives than in identifying adjustments needed in the current program. We assessed the findings of the evaluation published by the government in September 1996 from this perspective.

#### **A strong commitment to evaluation**

**26.110** From the start of the program, there was a clear and strong commitment to evaluating its effects. All of the federal-provincial agreements contain unambiguous provisions requiring that the program’s activities in each province be evaluated. The federal government and the provinces subsequently agreed to carry out one centrally led evaluation (which would also highlight local effects) in place of evaluations in each jurisdiction.

**26.111** The technical requirements of co-ordinating a joint federal-provincial evaluation on this scale are demanding. In our view the government is to be commended for this major undertaking and for its efforts to produce information on results in a timely fashion.

#### **The evaluation focussed on the program’s key objectives**

**26.112** We assessed the adequacy of the evaluation framework and the methodology proposed initially by the government to measure the program’s impacts, effects and other related results. We found that the evaluation framework included important questions on the full range of program objectives. The evaluation published in September 1996 responded to the need to provide timely input to decisions about future directions. It focussed on the central objectives of the program — employment creation and infrastructure enhancement — and reported on both strengths and weaknesses in the program’s design and implementation. However, the evaluation provides little or no information on the program’s success in contributing to its secondary objectives, including those relating to environmental improvement, worker skills development, private sector partnership and technological change.

### There are questions about key evaluation findings

**26.113** The evaluation findings on the program's employment impacts are basically positive both for the short term (while the program is in force) and over the longer term (extending for a period of some five years following the program's termination). These findings were developed from a series of simulations using an econometric model. The simulations indicate that on a net basis, and assuming an additional investment impact of 60 percent, some 80,000 additional jobs will be created over the 10-year period. It is not clear how reliable these findings are because, as the evaluation's technical background analysis itself notes, "longer-term effects are highly speculative."

**26.114** In addition to the econometric modelling, another important methodology employed in the evaluation was a series of case studies of the experience of individual municipalities. We examined a sample of 10 case studies and identified a number of questions about the reliability of findings. In several instances the case studies assessed whether individual investments represented new or accelerated projects, but did not assess whether investment in the municipality had increased overall, or whether the new projects had simply displaced other planned investments. Further, in several other instances, positive results were identified based on general statements (in some cases opinions) by municipalities that had received assistance under the program, without any concrete evidence to back them up.

**26.115** In dealing with the program's impacts on employment creation and infrastructure enhancement, the evaluation

did not adequately address the pivotal issue of the program's success in triggering additional investment. The evaluation framework had proposed a number of methodologies to estimate additional investment effects (or the program's "incrementality"). This additional investment effect is important in determining the program's success in creating additional employment. However, the evaluation findings on employment creation were derived using an assumption about incrementality that was based on the informed judgment of program officials.

### Program expenditures did not produce a corresponding increase in infrastructure investment

**26.116** As we have noted, our audit found that case studies undertaken as part of the program evaluation may have produced an overly optimistic view of the extent of additional investment resulting from the program. As a result, and before the government published its evaluation, we attempted to clarify this by considering what level of local government expenditures on construction could reasonably have been expected in the program's absence. In doing so, we recognized that a major determinant of the program's success will be the extent to which program expenditures trigger an increase in infrastructure investment during the 1994–95 to 1998–99 period.

**26.117** We used a series of leading and current indicators, based on historical experience with the factors that play an important role in determining investment activities in local infrastructure. Such factors include prevailing trends in gross domestic product, preceding and current levels of general federal-provincial transfers, and recent patterns in investment by municipalities in new construction and repairs of infrastructure.

The evaluation did not adequately address the pivotal issue of the program's success in triggering additional investment.



**We estimate that about 35 percent of program spending during the first year of the program simply replaced normal local capital spending.**

**26.118** We then compared the investment levels identified by the indicators for 1994, excluding the program's effects, with levels that occurred with the program in place. The difference between the two levels represents an approximate measure of the net effect of the program in 1994.

**26.119** This analysis shows that the program resulted in additional investment and employment in 1994 but not to the full extent indicated by total program expenditures.

**26.120** Although it is difficult to provide an exact figure for the extent of the shortfall, we estimate that for 1994 it was most likely around 35 percent of total program expenditures of approximately \$1.2 billion. In terms of federal expenditures, a shortfall of 35 percent means that about \$145 million of the \$415 million spent during the first year simply replaced normal local capital spending. Although about 65 percent of program expenditures resulted in the creation of additional investment and employment in 1994, there is room for improvement. It is important to note that our estimate applies only to 1994, and that separate estimates would be required to assess additional investment effects in other program years.

**26.121** Program expenditures may have produced other benefits (for example, by contributing to an improved climate for investment and to a more optimistic outlook among consumers). Moreover, it is not clear what a realistic expectation might be for the extent of additional investment resulting from federal expenditures. Nevertheless, we believe it is entirely realistic to expect that the government would aim to maximize the additional investment effect. In that light, the shortfall in reaching the full potential for federal expenditures to "make a

difference" has to be taken into account in judging the program's design and performance.

**26.122** We believe that this type of measurement is useful, as it allows an assessment of the reliability of information made available to Parliament on the program's impact. In addition, it raises important issues that we believe should have received more attention in the government's evaluation. For example, the finding that there was an overall shortfall in 1994 is consistent with our audit findings that in the majority of provinces, individual projects were emphasized as the basis for attempting to stimulate additional investment. The government's evaluation might have been expected to explore possible differences in additional investment effects associated with differences in program design between Quebec and the other provinces.

## Conclusion

**26.123** Our audit showed that the Canada Infrastructure Works Program was put in place quickly and produced benefits when most needed. The federal-provincial agreements that set the framework for the program clearly defined its central objectives. However, the framework did not provide a clear demarcation of the range of infrastructure eligible for funding. In addition, our audit showed that the framework, and its implementation, were not fully consistent with achieving the federal government's objectives and meeting its obligations for a contributions program, including those for review and reporting.

**26.124** Program funds supported investments in various types of infrastructure including, for example, roads, bridges, water and sewer networks, cultural and recreational facilities and municipal buildings. Moreover, we



concluded that the program was instrumental in directly creating additional investment and employment, though not to the full extent indicated by total expenditures.

**26.125** The federal government, in co-operation with the provinces, made a significant effort to evaluate the program and produced timely findings on key issues as input to decisions about future directions. We concluded, however, that there are questions about some key evaluation findings.

## Lessons Learned and Recommendations

**26.126** In view of the temporary nature of the program, our specific conclusions are presented in terms of lessons learned for possible future initiatives of this type.

**26.127** The key lesson from our audit is that there are fundamental requirements that need to be put in place in the management frameworks of shared-delivery programs to provide assurance that responsibilities have been discharged and properly accounted for. We identified some areas that worked well. We also identified areas for improvement in program design and implementation, as well as in the measurement and reporting of results.

### Program design

**26.128** The federal-provincial agreements were clear in identifying local infrastructure upgrading and employment creation as the two central objectives of the program. However, we found that the intended coverage of the program was not clearly articulated and that project selection criteria were vague.

**26.129** Despite the clear need for the program to stimulate infrastructure investments additional to those that would

have been made in its absence, in most provinces the program provisions, because of a focus on individual projects, were designed in a manner that was not consistent with maximizing this potential. There were exceptions in the approaches used in Quebec and by the Saskatchewan Association of Rural Municipalities, which showed the potential to produce more positive results.

**26.130** We found deficiencies in the specification of roles and responsibilities. In particular, the federal-provincial agreements did not clearly set out responsibilities for providing ongoing performance information, for monitoring the program's implementation and performance, and for carrying out timely compliance audits. In addition, the nature and extent of the federal responsibility for assessing project proposals and applying project selection criteria was not clear.

**26.131** Finally, we noted that the federal-provincial agreements did not provide adequately for flexibility to allow for timely adjustments to changing circumstances.

**26.132** A limited role by the federal government in the day-to-day implementation of shared-delivery programs should be balanced in relevant agreements by a strong emphasis on:

- a clear statement of objectives and well-defined program criteria consistent with their achievement;
- clear and comprehensive delineation of the roles and responsibilities of parties to the agreement;
- arrangements to help ensure that the federal government has the means to meet its responsibilities and accountability obligations; and

**An important lesson from this audit is that there are fundamental requirements that need to be put in place in the management frameworks of shared delivery programs.**

- **built-in flexibility to permit efficient administrative changes as required.**

**Government's response:**

**Program design.** As the government intended, the program criteria describing infrastructure were broad but clearly understood. The fact that municipalities could meet a wide range of their locally defined needs and priorities was one of the program strengths. The general definition was made clear in the agreements and in the earliest announcements about the program.

Private sector participation was one of the defined secondary objectives. This participation could occur only in certain infrastructure sectors. Private sector involvement would almost certainly involve some measure of subsidy, as it has for municipal participation.

Project targeting and selection criteria were defined in detail at the individual federal-provincial management committee level, as mandated in the agreements, to best suit the provincial implementation approach for meeting overall program objectives.

**Agreements.** The government accepts the recommendations on agreement design for future programs of this type, with the exception of the point on administrative flexibility.

Three standard sections of all agreements require governmental approval, reflected by orders-in-council, to amend:

- the objectives of the program;
- the total amount of each government's financial commitment; and
- the duration of the commitment (dates for project approval, completion and payment of claims).

All other management and administrative arrangements can be amended either by exchange of letters between federal and

provincial ministers or by agreement of the management committee.

The government believes that neither the objectives nor the financial provisions should be readily changed without high-level consideration. No other program delivery arrangements were demonstrated to have been constrained under the Canada Infrastructure Works Program (CIWP) model structure.

**26.133 The Canada Infrastructure Works Program Office, in consultation with implementing departments, should assess the issues related to additional investment requirements and, where appropriate, develop recommendations for future program initiatives of this type.**

**Government's response:**

**Additional investment or incrementality.**

Project incrementality was clearly identified as a necessary criterion of project selection. All management committees implemented this criterion and reflected it in their decision making.

To measure incrementality it is necessary to understand two factors: how much actually was spent by municipalities on infrastructure, and how much would have been spent had the program not existed. Because there is no exact way to determine prior intention, the measure of the level of incrementality and net economic impact are at best approximate and subject to interpretation. Recent information from Statistics Canada on actual municipal capital investment in 1994 and 1995 supports the government's analysis of a level of additional investment somewhat higher than the chapter's estimates, when actual results are compared with previously published municipal intentions. Additional analysis will be undertaken as more data become available for 1996 and future years.

The government agrees that it would be useful to test for incrementality impacts at the program level as well as at the project

*level. The approaches developed in Quebec and Saskatchewan provide useful examples of additional methods that could be used.*

*Implementing departments and provincial counterparts will share in a lessons learned/best practices forum. One important point of discussion will be demonstrating incremental activities. In any future program of this sort, the federal government will work with its partners to develop other appropriate tests for this criterion to supplement the project-level test employed in the current program.*

### **Program implementation**

**26.134** We found that projects were frequently approved by federal officials without sufficient supporting information or analyses to allow for meaningful review and that environmental assessments of projects were sometimes based on limited information. Some projects were approved and work was begun before environmental assessments had been completed.

**26.135** In addition, except in Quebec, federal officials did not have sufficient information, either from timely compliance audits or ongoing performance reporting by other parties, to monitor effectively the implementation and progress of the program, including compliance with program requirements such as targeting.

**26.136** Where the federal government enters into shared-delivery arrangements, it should ensure that it has the information it needs to exercise its responsibilities and accountability obligations on a timely basis.

### **Government's response:**

*Documentation and reporting. The Infrastructure Works Program model provided sufficient information for*

*decision making by federal officials and ministers. For straightforward projects, in well-understood areas of infrastructure renewal, all three levels were able to undertake their respective responsibilities and accountability roles adequately and the federal government did not require extensive project files. For more complex or exceptional cases, more detailed documentation and analysis were sought and obtained from proponent municipalities.*

*We agree that a better-defined information flow may result from shared operations in a common federal-provincial secretariat, as was the case in the Alberta model. The government agrees that some pre-project approval documentation could have been improved. The federal government hopes to pass on this aspect of lessons learned to provincial partners through a best-practices forum for improvements in any future program.*

### **Measurement and reporting of results**

**26.137** We found strengths, but also deficiencies, in the government's estimating and reporting of direct employment created by the program as well as in the evaluation of its relevance, success and cost effectiveness.

**26.138** A well-established and consistent method was used to estimate the amount of direct employment associated with infrastructure investment. However, the approach produced questionable results in some cases when applied to the program and failed to distinguish between full-time and part-time work. Reports to Parliament about the employment created by the program were based on this single source of information and did not always point out the limitations of the estimates.

**26.139** From the outset, the federal government, in co-operation with the provinces, showed a strong commitment to evaluating the program. A comprehensive evaluation framework was



implemented and evaluation findings on key issues were produced at a time when they could be considered in making decisions on the program's future or on related initiatives.

**26.140** Although the evaluation addressed the central objectives of infrastructure enhancement and employment creation, it provided little information about the program's achievements and impacts in relation to a number of its secondary objectives. In addition, there are questions about some key findings.

**26.141 Program managers should identify, and use as appropriate, multiple sources of evidence when estimating the employment effects that can be attributed to programs such as the Canada Infrastructure Works Program. In addition, information on employment effects provided to Parliament should clearly set out its limitations.**

**Government's response:**

*Employment impact reporting.* The CIWP produced consistent reports of employment impacts to the public and to Parliament. The method for calculating job estimates was also clearly described in news releases, fact sheets and briefings to caucuses. Media and House clients had clear access to the methodology and were briefed to understand why the Statistics Canada model was used. The government agrees that other measures of employment impacts should continue to be investigated.

Clearly the consequence of less than full (100 percent) incrementality is on net employment impacts and not on the numbers of jobs that the direct expenditures created. It continues to be accurate to say that the \$6.5 billion in infrastructure spending will produce more than 100,000 construction and

construction-related jobs. How much of this impact is net new employment is clearly discussed in the program evaluation.

**26.142 Responsible departments should ensure that evaluations of this and similar programs produce credible findings on key impacts and effects.**

**Government's response:**

*Evaluation results.* The program evaluation was completed early in the life of the program and within a timeframe needed to be useful in the debate about program extension. The report provided an effective analysis of the key evaluation issues and it presented a balanced set of positive and negative findings. The findings are based on many lines of evidence. This report set out all the main features and points of views on the program and the author clearly stated when he thought that the findings were speculative.

The government notes that program evaluations have often been criticized in the past for being so slow and painstaking that their results were too late to be relevant. The evaluation of the CIWP represents an example of timely and effective evaluation that is playing a useful role in public discussion and policy formulation.

*Ongoing review.* The review framework will continue to be employed, especially in the area of compliance audits: all provinces now have an audit regime in place and many have already produced observations that have been used by management for delivery adjustments.

The government agrees that good evaluations should always produce credible findings.

**Government's overall response:**

The government accepts the overall conclusions in the Auditor General's



*report about the appropriateness and effectiveness of the federal-provincial agreements as the cornerstone of this type of partnership. It is essential that such agreements and the rest of the program delivery arrangements recognize and make use of the relative expertise of each level of government. The government notes that the approach led to a relatively trouble-free and successful program, in large part because of the high level of co-operation with provincial and municipal governments.*

*The government agrees with the conclusion that the requirement for a compliance audit plan should have been included in each of the agreements at the outset. Audit plans should be designed to allow for early identification of any issues for timely management action. It is agreed that audit activities should begin quickly,*

*especially in programs with a short timeframe.*

*The program evaluation takes into account qualitative and quantitative information through multiple lines of investigation and provides a balanced view of the strengths and weaknesses of the program. The fact that the evaluation report was delivered in a timely manner to both the federal and provincial governments has made it particularly useful for the consideration of future policy decisions.*

*The government is pleased with the program management approach developed for the Canada Infrastructure Works Program. It should be used as a model, with some improved audit and reporting arrangements suitable for shared programs, for future federal-provincial arrangements.*



## About the Audit

### Objectives

- To determine the extent to which the design and implementation of the program are consistent with the achievement of the program's objectives and provide for appropriate control and accountability with respect to federal expenditures.
- To determine whether there is reasonable assurance that the implementation of the Canada Infrastructure Works review framework will produce valid and reliable information on program results.
- To identify lessons learned for possible application in the future.

### Scope

The audit examined the design and implementation of the program as well as the government's review and evaluation of results achieved. We analyzed in detail a sample of approximately 200 individual project files. We also carried out extensive interviews with program managers and selected provincial representatives, and reviewed program agreements and other documentation.

The audit covered the program's activities in all 10 provinces. We did not examine the First Nations Infrastructure Initiative or the program's activities in the two territories. Overall, the activities we excluded accounted for less than two percent of total program expenditures.

### Criteria

- Authorities should be in place to support the introduction and implementation of the program and its expenditures.
- Management should set out clear objectives that define success.
- Program planning should be based on an adequate assessment of the requirements (including time requirements) to implement a program of this type.
- Federal-provincial agreements negotiated under the program should provide an adequate framework to implement the program so as to achieve program objectives; should clearly specify the responsibilities of the parties involved; and should serve the corresponding accountability requirements.
- Federal funds should be allocated among provinces and territories in a manner that promotes the achievement of program objectives.
- Project selection criteria should be consistent with the achievement of program objectives and should be applied in approving projects.
- The program should be implemented in a cost-effective manner.
- There should be adequate financial and management controls over program expenditures.
- Program information and data systems should provide reliable, relevant and timely information on program needs, program operations, and program performance to support management of the program and accountability.
- Program review and evaluation should fairly represent the range of program outcomes and produce valid and reliable information on program results in an objective manner.

### **Audit Team**

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**November 1995**

*The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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## Follow-up of Recommendations in Previous Reports

### Main Points

**26.1** Departments are taking action to correct deficiencies noted in our previous reports; however, progress is slow in some areas.

**26.2 Department of Environment — The Control and Clean-up of Freshwater Pollution.** The Interdepartmental Committee on Water is responsible for co-ordinating the Federal Water Policy, which requires the integration of river watershed management plans and objectives with those of other resource interests. However, Environment Canada has made little use of the Committee in the development of its ecosystem approach to renewable resource management.

**26.3 Department of Fisheries and Oceans — Northern Cod Adjustment and Recovery Program.** Reducing the dependency on the Atlantic groundfish industry continues to be a challenge. The final evaluation of the Northern Cod Adjustment and Recovery Program, completed in December 1994, estimated that approximately 3,100 of the 26,500 eligible program participants had actually left, or were on a path to exit the fishery. At the start of the Program in July 1992, the Department had expected that about 8,000 fishermen and plant workers would leave the fishery.

**26.4 Department of National Health and Welfare — Programs for Seniors.** Health Canada and Human Resources Development Canada (HRDC) have taken some action on our 1993 recommendations. However, significant work remains to be done in all of the areas identified. HRDC has yet to fully address the recommendations made by the Public Accounts Committee concerning the management of pension programs. Some steps have been taken by HRDC to respond to deficiencies noted that contributed to the overpayment problem. Health Canada has merged and created a focal point for those seniors programs under its responsibility. However, it has yet to complete the evaluation of the Seniors Strategy and provide information on the results of the programs in the Department's Estimates. An evaluation needs to be completed before the scheduled renewal of the Seniors Strategy in 1998.



## Introduction

**26.5** Overall, departments are taking action to correct deficiencies noted in our previous Reports. However, as noted in this chapter, progress is slow in some areas. Many departments are undergoing significant changes as a result of downsizing, which is putting additional pressure on their remaining resources. It is important that the momentum to correct identified deficiencies is not lost while this process is under way, to ensure that these remaining resources are used in the most efficient and effective manner.

**26.6** Observations and recommendations made in our annual Report are normally followed up and their status reported two years after publication of the original chapter. This year, five follow-ups are reported in other chapters of our Report, eight have been deferred, and three will not require a formal follow-up.

**26.7** The first two recommendations that dealt with program evaluation and ongoing performance measurement in Chapter 9 of our 1992 Report, "Employment and Immigration Canada — Employment — Monitoring Performance Against Expectations", are being followed up in Chapter 22, "Human Resources Development Canada: Support for Training". The recommendation on project control focussed on programs that have been considerably modified since our audit. The funds allocated to these programs for 1995–96 represent about 30 percent of the amount audited in 1992. In light of this situation, we do not feel that follow-up of this recommendation is necessary at this time. If, however, the scope of these programs should increase over the next few years, we will consider re-examining the question in a broader context. The Community Futures program

has been transferred and disseminated throughout four different government institutions (Western Economic Diversification Canada, the Federal Office of Regional Development — Quebec, Industry Canada, and the Atlantic Canada Opportunities Agency). Therefore, no follow-up has been done on this recommendation.

**26.8** Chapter 4, "Crown Corporations: Accountability for Performance", and Chapter 5, "Information for Parliament — Understanding Deficits and Debt", from our 1993 Report, were followed up in Chapters 10 and 9 respectively, of our October 1995 Report, "Crown Corporations: Fulfilling Responsibilities for Governance", and "Information for Parliament — Deficits and Debt: Understanding the Choices".

**26.9** A three-phase follow-up on Chapter 12 in the 1993 Report, "Canadian International Development Agency — Bilateral Economic and Social Development Programs", was started in Chapter 13 of our October 1995 Report, "Canadian International Development Agency: Phased Follow-up of the Auditor General's 1993 Report — Phase 1".

**26.10** Our follow-up audit of Chapter 21 in the 1993 Report, "Department of National Revenue — Electronic Filing of Individual Income Tax Returns", was expanded to also consider the processing of paper returns and is reported in Chapter 25, "Revenue Canada: The New Regime for Processing Income Tax Returns".

**26.11** Follow-up on four 1993 chapters, Chapter 7 on Internal Audit and chapters 8, 9 and 10 on Program Evaluation, has been deferred until 1996. This was to allow time for detailed work to be done in departments to address recent substantial

changes in the area, and to assess the Treasury Board President's report on the performance of review functions, to be released in the fall of 1995.

**26.12** Follow-up on Chapter 19 in the 1993 Report, "Department of National Health and Welfare — Non-insured Health Benefits", has been deferred, as the Department's Internal Audit Directorate planned work of its own in this area. We plan to review this work and to rely on it, if appropriate to do so.

**26.13** Chapter 20 in the 1993 Report, "Department of National Revenue — Advance Income Tax Rulings — Goods and Services Tax Rulings and Interpretations", will have its follow-up deferred until 1996 to allow the completion of audit work in other related areas.

**26.14** Follow-up has been deferred on Chapter 22 in the 1993 Report, "Department of Transport — Airport Transfers", as no further transfers have been made to airport authorities since the original audit. Follow-up will take place after additional transfers are made.

**26.15** Follow-up on Chapter 27 in the 1993 Report, "Gun Control Program", has

been deferred until Parliament deals with the gun control proposals currently before it. These proposals would fundamentally change the program we looked at in 1993.

**26.16** Chapter 4 of our 1992 Report, "Change and Control in the Federal Government", pointed to the need for a control and accountability framework to serve parliamentary control while safely guiding public servants through a period of change. Follow-up work has been done with Treasury Board Secretariat on the issues raised in the study and an internal report is being prepared. These issues will also be subject to examination and reporting in more detail through future audits covering a number of related areas.

**26.17** No formal follow-up is planned on Chapter 6 in the 1993 Report, a study entitled "Canada's Public Service Reform, and Lessons Learned from Selected Jurisdictions". The Office is continuing to examine important aspects of reform through its ongoing audit activities.

**26.18** Chapter 24 in the 1993 Report, "Disclosure of the Cost of Using the Administrative Flight Service (VIP Fleet)", will not be formally followed up, as the issues identified were largely resolved after the chapter was published.



## Department of National Revenue — Taxation — Resolving Disputes on Income Tax Assessments — 1992, Chapter 21

*Assistant Auditor General: Shahid Minto*

*Responsible Auditor: Jim Ralston*

### Background

**26.19** Under the *Income Tax Act*, taxpayers have the right to dispute Revenue Canada's assessment of their obligations and entitlements. The Department's Appeals Branch is responsible for responding to these disputes.

**26.20** Our 1992 audit focussed on two important aspects of this dispute resolution process — timeliness and fairness. We also reported on other relevant matters, that is, training of departmental staff, providing feedback to other areas of the Department and accounting to Parliament.

### Conclusion

**26.21** Revenue Canada has made reasonable progress in responding to the majority of recommendations and observations in our 1992 chapter. It has surveyed taxpayers on their perceptions of the timeliness and fairness of the dispute resolution process, and provided more information to Parliament. Taxpayers, however, are waiting longer for their objections to be resolved. Further work is required to address our concerns fully.

### Observations

#### Timeliness

**26.22** While undue haste would be counter-productive, neither taxpayers nor the Department would benefit from the uncertainty inherent in an overly long

dispute process. In 1992, we observed that the inventory of objections had doubled in size in five years, with the largest increase in the category of pending inventory. (Pending objections are those that are set aside to await the outcome of a similar dispute, a reply from the Appeals Branch head office, or information from another Revenue Canada division.) During our follow-up work, we found that the inventory had risen from 38,500 objections in 1991–92 to 52,300 objections in 1994–95. The majority of this increase, almost 14,000 objections, is attributable to a large group of objections received in 1994–95 and, at 31 March 1995, held in inventory pending the outcome of a dispute before the courts. Adjusting for this group, the level of inventory is marginally higher than it was three years ago. Subsequent to the year-end, the court ruled on the dispute, which had delayed the large group of objections. With the issue in dispute decided, the Department expects the objections in the group to be processed relatively quickly.

**26.23** To assess whether it is processing taxpayers' disputes in a timely manner, the Department monitors the age of its inventory of objections. It aims to keep each field office's inventory of active objections that are over 120 days old below specified percentages based on the average complexity of the cases handled by the field office. We reported in 1992 that offices handling simpler cases had met their goals in four of the last six years, but that the Department had not met

**Taxpayers are waiting longer for their objections to be resolved.**

**Measures of timeliness now cover the whole time period for processing active objections, but do not include pending objections.**

its goals in offices dealing with more complex cases. By 1995, the situation has deteriorated. For the last three years, the Department met none of its goals in the field offices. (A related measure shows that the Department now takes longer, 179 days in 1994–95 compared to 153 days in 1991–92, to process active objections.) Revenue Canada considers that the goals have become less realistic as the growth in the workloads has continued to outstrip the availability of resources. (Over the last three years, the resources handling objections dropped 5 percent while the number of new cases rose 7 percent.) In addition, it believes that, as a result of amendments to the *Income Tax Act* to allow more time to resolve disputes without recourse to the formal dispute resolution process, the average complexity of objections has increased. The Department intends to reconsider its goals as part of its development of client service standards.

**26.24** In 1992, we noted that the departmental measures of timeliness were incomplete — they did not cover the whole time period for processing active objections and did not include pending objections. We recommended that the Department ensure that management information contained in its quarterly reports cover the entire processing time for all types of objections — active, pending due to referrals internal to Revenue Canada and pending awaiting court decisions. Progress to date has been different for active and for pending objections. We found that for active objections, the Department now includes information on the whole processing period in a summary report for the Appeals Branch senior management in head office, and plans to add information on the whole processing period to its quarterly reports for field office managers. For pending objections, the Department

intends to consider how to report to senior management in head office on processing time, as part of a review of its management information systems.

**26.25** At the time of our 1992 audit, we observed that Revenue Canada had been developing a client questionnaire to survey taxpayers, but that it did not intend to use the questionnaire to collect information on timeliness. We recommended that the Department ensure that its survey questionnaire ask taxpayers for their perceptions of timeliness of the dispute resolution process. Our follow-up work found the Department surveyed taxpayers in November to December 1994. The survey was designed to gather replies from various categories of taxpayers who filed objections; however, it excluded taxpayers whose objections had been at any time in its pending inventory. (The pending inventory includes objections by taxpayers who choose to have their case dealt with as part of a group of similar cases rather than to pursue it to the courts on an individual basis.) The Department considers that by excluding taxpayers with pending objections from the sample, it prevented possible distortions in responses to questions dealing with timeliness. For the taxpayers surveyed, the Department has included a number of questions on timeliness. At the time of our follow-up work, the results of the survey were not yet available.

**Fairness**

**26.26** We noted in 1992 that it is essential that Revenue Canada's dispute settlement process be fair and be seen to be fair for taxpayers to want to use it. To obtain information on whether the Department is succeeding, we recommended that it obtain sufficient data in its taxpayer survey to permit analysis of responses from selected subsets of

taxpayers who dispute assessments, for example, those who “won” their cases versus those who “lost”. We found that in its current survey of taxpayers, the Department gathered opinions from those whose objections were resolved in their favour or not, from those with a small or large amount of taxes in dispute, and from those in different provinces.

#### Other matters

**26.27** In 1992, we noted that if analysis of results of the dispute resolution process were reported to other areas of the Department, it would contribute to improvements in operations. We recommended that the Department study the extent to which feedback is provided and used to improve operations, and develop recommendations for improving its use, where appropriate. The Department has not undertaken a study. However, during recent meetings in a number of its regions, the Department emphasized the role of field offices in providing feedback to areas of the Department whose tax assessments had resulted in objections. Also, it is establishing a new head office group whose mandate will be, in part, to help in identifying the sources and trends in the Appeals Branch workload.

**26.28** In order to provide parliamentarians with access to

information on the dispute resolution program, we recommended that the Department ensure that more detailed and complete information on fairness and timeliness is compiled and referred to in Part III of the Estimates. Our follow-up found that the Department is now reporting in its Part III more complete information on the dispute resolution program. Part III now contains information that responds to six of the nine suggestions we made in the 1992 chapter, for example, the number of objections resolved in favour of the taxpayer, and the average lapsed time to resolve active objections.

**26.29** A departmental study released in 1992 expressed concern about disparities between training needs and the training available to Appeals Branch staff. We reported that the study called for development of a training policy, training profiles outlining required courses, and national training courses. During our follow-up, we found that the Department has taken a number of steps to address these concerns. It is finalizing a national training course for new staff and expects the course to be ready for delivery in the fall of 1995. Further, Revenue Canada recently established a training and development operations committee, which will develop training profiles and identify training priorities.

**Part III of the Estimates contains more complete information on the resolution of disputes, on processing time and on categories of inventory.**



## Emergency Preparedness in the Federal Government — 1992 — Chapter 24

*Assistant Auditor General: Richard B. Fadden*

*Responsible Auditor: Alan Gilmore*

### Background

**26.30** We reported to Parliament on emergency preparedness in the federal government in 1987, 1989 and 1992. In 1990, the Standing Committee on Public Accounts recommended that Emergency Preparedness Canada complete the National Earthquake Support Plan as soon as possible in conjunction with provincial authorities.

**26.31** In 1992 we reviewed the progress made in developing the Plan. We reported to Parliament that a framework for further planning had been developed but that an operational plan was still not available.

**26.32** A National Earthquake Support Plan was updated in the weeks before the May 1994 CANATEX II exercise. It was specifically developed to “provide a co-ordinated national response to requests for assistance from British Columbia as a result of a catastrophic earthquake.”

**26.33** The first major test of the Plan occurred during the first two weeks of May 1994 in British Columbia. Participants included most major federal departments, most British Columbia and Alberta government ministries, most British Columbia Crown corporations, 14 municipalities of the lower mainland British Columbia, three non-governmental organizations, and the national headquarters and Region X of the United States Federal Emergency Management Agency.

**26.34** Federal departments participated throughout the two-week exercise period. By prior agreement, British Columbia and Alberta ministries were each involved for different three-day periods.

**26.35** The exercise was a test of procedures and systems. Emergency Preparedness Canada’s evaluation reported the limitations of the exercise due to such constraints as:

- limiting the exercise to normal working hours;
- limiting the exercise to the Lower Mainland area of British Columbia despite the fact that Vancouver Island and the neighbouring Northwest areas of the United States would also be affected; and
- beginning the exercise with the British Columbia Response Centre in place, which in reality would have taken many hours and possibly days to assemble.

**26.36** Emergency Preparedness Canada officials explained to us that these constraints were due to cost and availability of participants. Officials believe the costs associated with reducing the constraints would be significant. They also pointed out that the original CANATEX II proposal offered a two-week exercise to British Columbia officials. However, the latter agreed to participate for three days, working hours only. As a result, officials concluded that these valuable days could not be used to simulate the difficulty that would exist in assembling the British Columbia Response Centre staff and resources.

The first major test of the Plan occurred during the first two weeks of May 1994 in British Columbia.



## Objectives of CANATEX II

**26.37** The exercise scenario consisted of a catastrophic subduction earthquake with an epicentre about 125 kilometres southwest of Vancouver Island, a magnitude of 8.5 on the Richter Scale with a duration of four minutes, and a number of aftershocks.

**26.38** The emergency scenario used was intended to test the National Earthquake Support Plan and its links to the British Columbia Earthquake Response Plan by simulating a situation beyond the ability of the Province of British Columbia to manage without national support. Thus, the scenario hypothesized major devastation — over 4,000 dead, tens of thousands injured and hundreds of thousands homeless. Building destruction and damage were assumed to be widespread and comprehensive. Transportation and utility systems were expected to be almost totally destroyed. Health care facilities were significantly reduced.

**26.39** The exercise also was designed to test certain generic functions — called “national objectives” — needed to deal with a crisis. The national objectives of the CANATEX II exercise were:

- a) “to evaluate the federal Plan’s effectiveness to assist British Columbia regarding the:
  - effectiveness of the emergency structures and systems;
  - consultative procedures associated with the activation, implementation and operation of the Plan;
  - national crisis management operations and communications; and
  - interfacing between the national plan and the earthquake arrangements of British Columbia

and Alberta; and other emergency preparations.

- b) to provide provincial and federal departments and agencies in British Columbia and Alberta an opportunity to evaluate their joint and several response and support arrangements and interfaces with the national structures, procedures and systems.”

**26.40** In addition to the national objectives, departments developed, as required, specific objectives to guide their own participation. Emergency Preparedness Canada’s objective was to “determine if and how the National Earthquake Support Plan for British Columbia can be adapted to a generic federal support plan to respond to different civil emergencies.”

## Conclusions

**26.41** CANATEX II was the first major test of this Plan and represents the first national public welfare emergency exercise in Canada.

**26.42** Emergency Preparedness Canada’s report on the exercise concluded that CANATEX II “proved to be a useful test and evaluation vehicle for the National Earthquake Support Plan and its interfaces with the British Columbia and Alberta Plans. The [National Earthquake Support Plan] proved, subject to refinement, to be a viable concept and one that meshed well with the [British Columbia] Earthquake Response Plan.”

**26.43** Departmental assessments of the exercise showed that valuable lessons were learned. However, assessments from the British Columbia and Alberta regions of Emergency Preparedness Canada, and several federal departments, indicated that the exercise did not provide a fully adequate basis for evaluating the federal Plan’s effectiveness to assist British Columbia, for testing national support

systems, and for testing the links between the National Support Centre and provincial support centres or other elements of the national support system.

**26.44** These assessments indicate that there were insufficient requests from the “affected areas” to test the national capabilities of federal departments under the National Earthquake Support Plan.

**26.45** These assessments also suggest that national capabilities could be tested by significantly increasing the number and intensity of requests for assistance from affected areas.

**26.46** Emergency Preparedness Canada plans to conduct CANATEX III in 1997. We strongly recommend that this exercise more fully test the capabilities of the federal and provincial governments to respond to a catastrophic national emergency.

### Observations

**26.47** Emergency Preparedness Canada indicates that as a result of CANATEX II, the National Earthquake Support Plan is being revised. It also has sent a “follow-up action” report to federal departments containing 101 observations and recommendations that need to be addressed, and requesting information on the status of departmental actions. Status reporting will be done on a quarterly basis until completion.

**26.48** Although headway has been made, the pace of progress in the development of a viable National Earthquake Support Plan is slow. We first reported on the inadequacy of emergency preparedness for a catastrophic earthquake in 1987. While CANATEX II is a major step toward developing such a Plan, the detailed roles and responsibilities of some departments and agencies under the Plan are not yet sufficiently clear. For example,

responsibility for the provision of temporary shelter, water, and transportation control into British Columbia needs to be clarified.

**26.49** In 1992 we reported that the National Earthquake Support Plan does not assign responsibility for urban search and rescue in the event of a major earthquake. Emergency Preparedness Canada’s responses to our follow-up audit have emphasized, “Urban Search and Rescue is a provincial responsibility that has not been adequately assumed by these jurisdictions.” Emergency Preparedness Canada officials further explained, “In an effort to fill this critical deficiency, and in light of the findings of CANATEX II and subsequent real-life events, [Emergency Preparedness Canada] has initiated a project to develop a minimum federal urban search and rescue capability. Until such time as that project comes to fruition, a Memorandum of Understanding is being drafted between [Emergency Preparedness Canada] and the United States Federal Emergency Management Agency that would provide United States urban search and rescue assistance in the event of a major emergency.”

**26.50** We also noted in 1992 that a plan for recovery from catastrophic disasters needs to be developed. Emergency Preparedness Canada has informed us that it is not responsible for developing such a plan.

**26.51** Emergency Preparedness Canada officials agree that progress has been slow. In response to our follow-up report observations, they explained that the pace of progress depends on the co-operation of British Columbia; the need to persuade over 20 federal departments and agencies to co-operate and to co-ordinate their efforts; and the need to liaise with and consider the inputs of other provinces and international organizations. They also

Although headway has been made, the pace of progress in the development of a viable National Earthquake Support Plan is slow.

noted that the emergency preparedness community has recently experienced significant reductions in resources.

**26.52** Emergency Preparedness Canada officials also believe that “the planning process is as important as the resulting Plan [and that] the discussions, wrangling and consultations that have engaged all participants in the process of developing the Plan...will have contributed far more to earthquake preparedness in Canada than will a document that becomes obsolete almost as soon as it is published.”

**26.53** Officials also forwarded to us a draft generic emergency support plan dated 25 September 1995 and entitled “National Support Framework”. This document is based on the National Earthquake Support Plan. At the time of writing, the document had not been discussed with federal departments and other organizations. It should also be noted that Emergency Preparedness Canada’s assessment of CANATEX II reported, “a number of participants have expressed reservations with the development of a generic national support plan. It is their thought that each type of disaster carries with it different resource requirements, organizational structures and operating procedures.”



## Canadian Aboriginal Economic Development Strategy — 1993, Chapter 11

*Assistant Auditor General: Don Young*

*Responsible Auditor: Nancy Cheng*

### Background

**26.54** The Canadian Aboriginal Economic Development (CAED) Strategy was initiated by the government in 1989 to help develop and support the economic self-reliance of Aboriginal peoples. The Strategy has been implemented in partnership with Aboriginal peoples by three departments — Indian and Northern Affairs Canada, Human Resources Development Canada (then Employment and Immigration Canada) and Industry Canada (then Industry, Science and Technology Canada). Each department has its own program responsibilities but they share responsibility for research and advocacy. The cost of implementation was estimated to be about \$1 billion for the first five years of operation.

**26.55** In 1993, we observed that visible leadership for implementing the Strategy as a whole needed to be better established and that improvements were needed in seeking active participation and support from provincial or territorial governments. We also observed weaknesses in management practices, including the monitoring practices of Industry Canada, and a lack of appropriate performance and evaluation information on the implementation of the Strategy.

### Conclusion

**26.56** In 1995, we observed that some progress has been made, with several other initiatives under way. Although there has been more information on the results and performance of the Strategy since our 1993 audit, the CAED Strategy

has not been sufficiently evaluated and there is no comprehensive reporting to Parliament of the costs and performance of the Strategy.

**26.57** We also noted that the government is seeking to enhance the effectiveness of initiatives to improve the Aboriginal economic condition, taking into account the current Canadian economic environment. In these circumstances, and after five years of operation in implementing the CAED Strategy, changes to the framework for Aboriginal economic development are being contemplated. In proposing changes to the Strategy, it is essential, in our view, for the departments to take into consideration the lessons learned from the five-year experience in the CAED Strategy as well as input from Aboriginal peoples through the consultation process.

### Observations

**26.58** During the follow-up, we noted that a number of reviews of the CAED Strategy have been conducted or commissioned by the departments. Indian and Northern Affairs Canada completed a summary report on the evaluations of its component of the CAED Strategy in the fall of 1994. In early 1995, Human Resources Development Canada conducted a structural review of its Pathways to Success initiative, which includes its component under the Strategy.

**26.59** In addition, Indian and Northern Affairs Canada has commissioned a study to review and summarize the findings, conclusions and observations of various studies that relate to the Strategy. The



Department anticipates the review initiative to be completed this fall. However, the CAED Strategy has not been sufficiently evaluated. Although the departments provide information on the program components in their respective Part IIIs of the Estimates, there is no comprehensive reporting to Parliament of the costs and performance of the Strategy.

**26.60** With respect to Industry Canada, the Department reiterated its belief that the audit of the CAED Strategy obscured the significant accomplishments of Aboriginal Canadians and of its Aboriginal Economic Program. Consistent with its position in 1993, the Department did not respond to the specific recommendations made at that time, with the exception of its commitment to follow up on the performance of its client businesses and to make improvements in monitoring business investments. We found that the Department has adopted a new automated information system with the objective of serving and monitoring its Aboriginal clients and is making progress in obtaining information on the status of its client businesses.

**26.61** The initial funding allocation of about \$870 million for the first five years of implementing the CAED Strategy is now being considered for renewal. Funds allocated for the Pathways to Success initiative are planned to expire in March 1996. In addition, we noted that the government is seeking to enhance the effectiveness of initiatives to improve the Aboriginal economic condition, taking into account the current Canadian economic environment. Given these circumstances, changes to the framework

for Aboriginal economic development are being contemplated.

**26.62** We were advised by Indian and Northern Affairs Canada that an interdepartmental working group has been formed with the two other departments to examine the CAED Strategy. When we completed the follow-up in September 1995, terms of reference of the working group were being considered. Some of the evaluation reports and studies pointed to lessons learned, positive or otherwise, and offered recommendations. The Aboriginal consultation process commenced by Indian and Northern Affairs provided feedback and suggestions for improvement, including better co-ordination between departments and between governments. In our view, it is essential that the departments take into consideration the lessons learned from the CAED Strategy, as well as input from Aboriginal peoples, in proposing changes to improve the Aboriginal economic condition.

*Department's comments: Indian and Northern Affairs Canada generally agrees with the follow-up report.*

*Regarding the concluding part of the report, departmental officials have recently completed a regional consultation process with First Nations and a review of the recommendations from all of the CAEDS evaluation reports. The results of the consultation process and the recommendations from the evaluations have been shared with the CAEDS partners. These will form a major input to other discussions and changes to future Aboriginal economic development programming.*

**In our view, it is essential that the departments take into consideration the lessons learned from the CAED Strategy, as well as input from Aboriginal peoples, in proposing changes to improve the Aboriginal economic condition.**

## Department of Agriculture — Agri-Food Policy Review — 1993, Chapter 13

*Assistant Auditor General: Don Young*

*Responsible Auditor: Doug Timmins*

### Background

**26.63** The chapter examined the progress made by the Department up to 1993 and the future action it needed to take to implement recommendations arising from the 1989 Agri-Food Policy Review.

**26.64** We focussed on six action areas related to market and trade development, research and technology transfer, environmental sustainability, farm management skills, regulatory review and pesticides registration review. In 1993, it was reported that progress had been made in each of these areas; however, much more remained to be achieved, as evidenced by the 24 “agreed-to next steps” incorporated in the 1993 chapter.

**26.65** We also reported a number of overall observations on the challenges faced by the Department in responding to these action areas, namely: the visibility of change; the challenge of change in culture; the measurement of change; the need for a common understanding; and information: a key business for the Department.

**26.66** Our follow-up involved discussion and review of documentation related to action taken to implement the “agreed-to next steps”.

### Conclusions

**26.67** Reasonable progress has been made on most of the “agreed-to next steps” in the research and technology, regulatory review, and pesticides registration review action areas. Within

these areas, progress has been slower in implementing an evaluation of key research technology transfer activities, and enacting new pest management legislation. The Department has indicated that in the fall of 1995 a cycle for reviewing regulations will be approved.

**26.68** The 1989 Agri-Food Policy Review left the Department of Agriculture and Agri-Food with a formidable agenda of policy directives to implement in the market and trade and environmental sustainability areas. The Policy Review acknowledged that “state of the art” farm business management skills should remain a priority in the 1990s and beyond if producers were to obtain current information necessary to adapt and become more competitive. Consequently, we recognize that considerably more time is required to achieve significant progress in these areas. Our follow-up confirmed this to be the case. Progress since 1993 for each of the “agreed-to next steps” for these action areas is reported in Exhibit 26.1.

### Observations


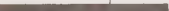



**26.69** **The visibility of change.** In 1993 we observed the growing impatience on the part of many individuals and organizations who played a part in the Agri-Food Policy Review. The impatience centred around what many felt was the lack of action on the part of the Department following extensive consultation. Notwithstanding the accomplishments of the Department, we found this to be a reasonable perception, because many who were consulted could

## Progress Since 1993

"Agreed-to Next Steps"	Limited Progress	Some Progress	Comments
<b>Market and Trade</b>			
<b>13.52</b> A formal assessment of all market and trade development program and activities will be undertaken.			In 1995, Cabinet approved a series of new initiatives to facilitate market and trade development for the sector. Development of a formal evaluation framework and its linkage to the Federal/Provincial Market Development Council is on schedule. The Department has indicated that the release of the report on the Evaluation of Agri-Food Industry Market Strategies and the Canadian Agri-Food Market Development Initiative is scheduled for the fall of 1995. Remaining programs are planned for completion over the next three years.
<b>13.53</b> Roles and responsibilities vis-à-vis other federal departments/agencies and provincial governments will be clearly defined.			Cabinet has approved a departmental submission that defines the future departmental roles vis-à-vis other federal institutions. As a result, the Agri-Food Trade Service was created. A two-to-three-year federal-provincial trade development action plan that includes reducing overlap is being implemented. Bilateral federal-provincial food inspection action plans have been signed.
<b>13.54</b> Domestic market development will be taken into account in planning.	no longer relevant		In 1994, federal and provincial ministers of Agriculture agreed that the provinces have primary responsibility for domestic market development. As a result, the Department is no longer emphasizing this area.
<b>13.55</b> A mechanism will be developed to establish priorities, develop goals and track progress.			Six priorities and objectives for 1995-96, 1996-97 and 1997-98 have been established. A mechanism has been developed to monitor progress.
<b>13.56</b> A more comprehensive client needs assessment of market information/intelligence trade development will be done.			An initial industry needs assessment of market information was completed, and a report presented July 1994. Further consultations are planned for 1995. Two projects are being implemented to provide a work platform for industry analysis and to make international trade data available to users.
<b>13.57</b> The usefulness and accessibility of market information/intelligence will be addressed. An action plan with assigned accountabilities will then be developed.			An action plan was developed and responsibilities assigned. Criteria to evaluate usefulness are in the draft stage and targeted for completion in 1996. A departmental bulletin board system with commodity market information is accessible by industry.
<b>13.58</b> The Department will define more fully "market strategies"; it will then review its and its partners' future market strategies with respect to completeness of commodities covered, clarification of objectives, establishing priorities, and ensuring co-ordination and consistency of format.			Enhancement of definition and understanding of market strategies for trade development purposes has been an ongoing effort by the department as a federal partner in the Agri-food Industry Marketing Strategy (AIMS) process. The efforts include revised guidelines for AIMS Working Groups and a suggested format for market strategies. As a result, according to the Department, the quality of trade development plans developed by several agri-food industry groups and presented to the Department through this process has improved.
<b>Environmental Sustainability</b>			
<b>13.115</b> Environmental indicators for the agricultural resource sector, including the establishment of reference levels to interpret the indicators will be developed. The Department will monitor and report on changes in the state of the resources and their effect on the environment.			A soil quality status report with indicators of soil degradation was released in June 1995. An industry-government committee has endorsed the development of six environmental indicators. Several technical reports were prepared in 1995. The Department is waiting for the results of data, which are to be captured in the 1996 census, in order to report the environmental changes by 1998.



Exhibit 26.1 (Cont'd)

"Agreed-to Next Steps"	Limited Progress	Some Progress	Comments
<b>Environmental Sustainability (cont'd)</b>			
13.116 The results of the Green Plan in relation to its national objectives will be monitored and reported. Furthermore, the data to assess quantitatively the efficiency and effectiveness of future programs will be developed.			Mid-term evaluations have been completed for all provinces except Nova Scotia. A national evaluation framework has been prepared. Given the termination of the Green Plan in 1997, completion of the national evaluation is not a high priority for the Department.
13.117 Cross-compliance issues will be examined and, where feasible, the circumstances under which payments can be withheld, restricted or enhanced for the purpose of protecting the environment will be provided.			Two cross-compliance studies have been completed. A discussion paper based on these studies is scheduled for public release in the fall of 1995. Six papers are planned to be published in the fall of 1996 on economic instruments and their feasibility of achieving environmental objectives in agriculture.
<b>Farm Management Skills</b>			
13.127 The Department will ask the Canadian Farm Business Management Council to monitor the results of training and will use this information to conduct an economic impact analysis.			An agreement was signed in 1993 asking the Canadian Farm Business Council to develop, implement and monitor farm business management programming. A study comparing management attitudes and practices and farm profitability has been completed. An analysis of the economic impact of National Farm Business Management Program activities is planned to be part of a program evaluation conducted in two to three years. Selected farms are planned to be used as performance measures.
13.128 The Department will develop common approaches and national standards for incorporation in any future federal-provincial agreements.			Standardized financial statements for use by dairy farmers are being tested by industry. Specific implementation dates for other common approaches and national standards have not been set. Selected farms are planned to be used as benchmarks.
13.129 The three-year time frame of the National Farm Business Management Program against the long-term objective of farm profitability will be assessed and recommendations made.			Cabinet has approved a departmental submission and a four-year renewal of a Canadian Farm Business Management Program. An interim evaluation report has been written and, at the time of the audit, was not yet approved.

see little public evidence of action. In 1995, the Department issued a communication package to inform stakeholders of changes that have been and will be occurring in key action areas.

**26.70 The challenge of change in culture.** It was clear that if significant change were to occur, a change in culture (behaviours, expectations and attitudes) would have to be made. Initiatives that address our observation have been undertaken by the Department. Emphasis is being placed on rewarding research

scientists who respond to changed priorities. Federal-provincial agri-food marketing and inspection partnership bodies have been created to co-ordinate and strengthen the two levels of government activities in marketing and food inspection. An industry-federal government committee has been established to select and develop agri-environmental indicators.

**26.71 The measurement of change.** In 1993 we found that in most areas management had not developed the



indicators or measurement procedures necessary to determine the precise nature and magnitude of problems in their area of responsibility, or to enable tracking their outcomes. However, we observed that in most areas management had action plans in place to develop indicators of effectiveness and to gather the necessary data to measure them. Since 1993, the publication of *The health of our soils — Towards sustainable agriculture in Canada* indicates what has been done to protect soils, as well as how much remains to be done. In addition, a performance indicator — increasing exports to \$20 billion by the year 2000 — has been set. Otherwise, the main focus of measurement initiatives has centred around developing evaluation frameworks.

**26.72 The need for a common understanding.** While the Department is continuing to work on evaluation frameworks for many of the action areas, we are not aware of any department-wide initiatives to clearly define what is meant by terms such as “market strategy”, “value-added”, and “market-oriented versus production-oriented”. If effectiveness measurement is to be developed successfully and if the right data are to be collected, it is essential that such concepts be clearly defined.

**26.73 Information: a key business for the Department.** Since 1993, we have observed that the Department has started to specify what the industry expects from the Department in terms of more and better market information/intelligence. It is essential that the Department continue to work with potential customers to ensure that information is consistent with user needs and can be readily accessed.

*Department's comments:* While many elements of the Agri-Food Policy Review are still significant in today's policy environment, federal priorities and the

*policy agenda for agriculture and agri-food have evolved. Since the Auditor General's 1993 Report, the federal government has presented a Vision for Canada's agriculture and agri-food sector that is built on a balance between economic growth and security, while recognizing the need for fiscal restraint. The Vision and extensive discussions with the sector went a long way toward setting the stage for the 1995 Budget decisions, which set in motion far-reaching changes in the sector, resulting in significant variations from the Agri-Food Policy Review directions.*

*For example, in the area of market and trade development, new government priorities as well as Program Review have resulted in a different approach than that taken in the Agri-Food Policy Review. This approach has focussed on greater clarity in the roles and responsibilities of the different players, and a reduction in overlap and duplication. Federal and provincial Ministers of Agriculture have agreed that domestic market development is primarily a provincial responsibility. As well, the Agri-Food Trade Service, announced by the Minister in June 1995, established a commitment to an enhanced working partnership between Agriculture and Agri-Food Canada and the Department of Foreign Affairs and International Trade. This has been supplemented by better co-ordination of all federal programs and services, providing a prominent focal point for the delivery of trade programs and services to Canadian agri-food exporters. The new partnership with industry is reflected in the new Canadian Agri-Food Marketing Council (CAMC).*

*On environmental issues, federal policy, previously based on significant specialized funding through the Green Plan, has been replaced by a new federal framework for sustainable development — A Guide to Green Government. This framework involves a broader set of instruments, with funding being a less important component*

*of the approach. Agriculture and Agri-Food Canada is currently developing a sustainable development strategy that will be completed by 1997. Proposed legislation indicates that it will be*

*monitored and reported upon by the Commissioner of the Environment and Sustainable Development, who will report to the Auditor General.*

## Department of the Environment — The Control and Clean-up of Freshwater Pollution — 1993, Chapter 14

*Assistant Auditor General: Robert R. Lalonde*

*Responsible Auditor: Wayne Cluskey*

### Background

**26.74** In 1993 we examined aspects of Environment Canada's role in the control and clean-up of freshwater pollution. We reviewed the terms of reference and activities of the Interdepartmental Committee on Water (ICW), which the Department chairs and which co-ordinates federal activities under the Federal Water Policy. We also reviewed the Department's participation in the implementation of the St. Lawrence River and Fraser River Action Plans, begun in 1988 and 1991 respectively.

**26.75** We noted that in spite of its broad mandate and its membership of nine major water-related departments plus observers from Treasury Board, the Privy Council Office and Emergency Preparedness Canada, the ICW had not taken an active role in the development and implementation of the action plan process for the clean-up of water quality, except for the Great Lakes Action Plan. Nor had it provided strategic planning advice to the Minister of Environment on the overall process, despite the importance the Department attaches to these major ecosystem initiatives.

**26.76** Our 1993 audit of the St. Lawrence River Action Plan revealed the absence of long-range strategic planning. We noted the delay in producing a state-of-the-environment report from which to determine the magnitude of the problems yet to be faced and the scope and total costs of measures needed to rehabilitate the St. Lawrence River basin fully. We considered such information,

expressed in simple terms and related to water use demands, to be especially important as the Action Plan moved from phase 1 to phase 2 in 1993.

**26.77** The more recent Fraser River Action Plan is being jointly implemented by Environment Canada and Fisheries and Oceans Canada. We reviewed Environment Canada's participation in the Plan and also commented on the multistakeholder Fraser Basin Management Program to which the Action Plan contributes. We noted co-ordination problems between the two departments and the need for stakeholders to be better informed to facilitate their participation in the clean-up. While the Plan's objectives were clearly defined, we noted the need for specific benchmarks against which existing water quality and subsequent improvements could be assessed. We also noted the need to ensure that the Plan was fully integrated with the larger Fraser Basin Management Program.

### Conclusion

**26.78** While the Department has taken action to address many of our observations and recommendations, work remains to be done in certain areas, e.g. on the function of the Interdepartmental Committee on Water, on reporting the results of clean-ups and on interdepartmental co-ordination.

### Observations

#### The Interdepartmental Committee on Water (ICW)

**26.79** The Committee is now located in Environment Canada's Water and Habitat

**Most observations and recommendations have been addressed.**



### The Interdepartmental Committee on Water is underutilized.

Conservation Branch, following the program review. Although the Committee has not met since October 1993, Environment Canada has distributed information to members on water-related issues. By mail, the Committee reviewed the Great Lakes Action Plan 2 submission, although too late in the process to effect change. It also provided comments on the federal response to the International Joint Commission's *7th Biennial Report on Great Lakes Water Quality*. However, the Committee has not functioned as a policy advisory body since our 1993 audit.

**26.80** In January 1994, the Committee published its second report on the implementation of the Federal Water Policy, covering the period April 1990 to March 1992. However, the Committee did not take that opportunity to re-examine its role in the action plan process, which remains passive and limited. This is surprising given its potential contribution to the Department's ecosystem approach in support of sustainable development, as stated in its program review documentation in February 1995. The Department's approach is based in large measure on the river basin action plans currently in place.

**26.81** In its recently published (1995) action plan for 1995-96 to 1997-98, the Department responded to our concern regarding a lack of federal long-range strategic planning for the water quality action plan process by promising a long-term strategic plan for ecosystem initiatives for 1997. However, to date there has been no indication that the Interdepartmental Committee on Water will be involved, in spite of the Department's emphasis on the need for partnerships and co-ordinated action to achieve its goals.

**26.82** As we noted in our 1993 Report, the Committee is the focal point for co-ordinating the Federal Water Policy among federal departments and agencies. This involves the use of five strategies, including scientific leadership and integrated planning. The latter requires the integration of water management plans and objectives of a river watershed, or another appropriate unit, with those of other natural resource interests — fisheries, forestry, wildlife, mining, hydro-electric power and agriculture — to reflect the unity of natural processes and the interdependence of users and uses in that unit.

**26.83** The Committee's mandate, therefore, is sufficiently broad to accommodate the Department's new ecosystem approach and sufficiently flexible, given that the Federal Water Policy recognizes the need to adapt to changing circumstances. We recognize that there have been cutbacks to the water program arising from program review; however, in the absence of government direction to the contrary, the Committee, through the Federal Water Policy, continues to be one of the main instruments in the management of renewable resources and needs to be used more extensively.

### The St. Lawrence River Action Plan

**26.84** Phase 2 of the St. Lawrence River Action Plan (Vision 2000) was signed by the federal and Quebec governments in 1994 in the absence of a long-term strategic plan. This omission is significant given the magnitude of the clean-up task. However, the Management Committee for the Action Plan has recognized the need for such a document and intends to begin this year to develop a long-range strategic plan for release in 1997. This will be a component of Environment Canada's overall strategic



plan for the action plan process, referred to in paragraph 26.81.

**26.85** Although some information on water quality has been published by the Quebec Government in collaboration with Environment Canada, the Department has not yet published its state-of-the-environment report for the entire St. Lawrence River basin ecosystem. This report, which was due in 1993, was to have been the baseline against which water quality improvements could be measured.

**26.86** The report is now expected to be completed by the end of 1995, and is expected to present information on water quality in terms of its suitability for such uses as fishing, swimming or drinking. This is important if the public is to understand pollution problems and contribute to their resolution.

**26.87** Progress reports to Parliament need to be improved — to include information on the various obstacles to achieving water quality objectives, and the estimated long-term costs for the restoration of the river basin ecosystem.

### **The Fraser River Action Plan**

**26.88** The Department's initial budget for its participation in the six-year Fraser River Action Plan was \$50 million. Budget cuts have occurred since our Report in 1993 and, under the recent program review, the Department's participation in the Plan has been extended by one year. The revised budget

for the seven-year Plan, now scheduled to terminate in 1998, is approximately \$40 million. The degree of attainment of the Plan's objectives may be affected by these constraints.

**26.89** The Department has implemented an environmental quality program to ascertain the health of the river by providing baseline information on water quality and ecosystem conditions within the Fraser River Basin. It has recently published a status report on the program's preliminary findings against which further improvements can be measured. This information will be used, for example, to set water quality targets to protect or enhance the designated uses of a water body, and report on their status. A final report will be published following completion of the Fraser River Action Plan in 1998.

**26.90** Stakeholders are being kept informed of progress through the annual reports of the Fraser River Action Plan and the complementary reports of the Fraser Basin Management Board. However, neither the Part IIIs of the Estimates of the Department, nor the annual reports of the Plan, have commented on the budgetary constraints and the effects of these on the achievement of the Plan's objectives. Finally, we noted that interdepartmental co-ordination, while improved, still needs attention, especially in the enforcement of pollution control legislation.

**Reporting on the St. Lawrence and Fraser River action plans could be improved.**

## Department of Fisheries and Oceans — Northern Cod Adjustment and Recovery Program — 1993, Chapter 15

*Assistant Auditor General: Don Young*

*Responsible Auditor: Nancy Cheng*

### Background

**26.91** In 1992, in response to a moratorium on fishing cod in the North Atlantic zone, the government established the Northern Cod Adjustment and Recovery Program to provide relief to those affected and to prepare for a much reduced fishery in the future. The Program was administered by Fisheries and Oceans Canada.

**26.92** We examined the Program in 1993 and reported the lack of an economic assessment of the decline in fish stocks, the lack of a clear substantive legislative authority for the Program, and a lower than expected adjustment of fishermen and plant workers out of the fishery. We also observed weaknesses in financial management and control, and the Department's difficulty in targeting payments to those clearly affected by the moratorium.

**26.93** The Northern Cod Adjustment and Recovery Program ended in May 1994, along with the Atlantic Groundfish Adjustment Program, a program established in April 1993 to assist the fishermen and plant workers affected by the extension of area closures and quota reductions to include all Atlantic groundfish. The programs were replaced by a strategy that addresses the situation of fishery workers dependent on Atlantic groundfish. The Atlantic Groundfish Strategy (TAGS) is a five-year strategy involving expenditures of \$1.9 billion. The Strategy is administered primarily by Human Resources Development Canada for income support, labour adjustment and

early retirement for plant workers, and by Fisheries and Oceans Canada for capacity reduction in the harvesting sector through licence retirement and early retirement for fishermen.

**26.94** Given the termination of the Northern Cod Adjustment and Recovery Program, our follow-up focussed on certain aspects of our 1993 recommendations and observations and provided an update of action taken on them. We have not undertaken an audit of the replacement strategy, TAGS.

### Conclusion

**26.95** Some progress has been made in addressing our recommendations and observations. In particular, the Standing Committee on Public Accounts held two hearings on our 1993 Report chapter, and its subsequent report addressed specifically the issues of clear and substantive legislative authority and the role of senior financial officers. We also found that the Department has prepared economic assessments of the recommendations by the Fisheries Resource Conservation Council and that they were considered in formulating the Atlantic Groundfish Management Plan. However, reducing dependency on the Atlantic groundfish industry continues to be a challenge.

### Observations

**26.96** In 1993, we observed that the Department had expended funds on the Northern Cod Adjustment and Recovery Program without a clear legislative authority; we recommended that

The Standing Committee on Public Accounts held two hearings on our 1993 Report chapter, and its subsequent report addressed specifically the issues of clear and substantive legislative authority and the role of senior financial officers.

legislation for this Program and any future programs of a similar nature be presented to Parliament for approval.

**26.97** Further to two hearings held in 1994, the Standing Committee on Public Accounts recommended that the government develop a position on the issue of when to use grants listed in the Estimates to introduce a new expenditure item, where the legislative authority is not clear. The government responded with a commitment that, in the absence of a clear legislated mandate, it would present to Parliament for approval programs similar in size and scope to the Northern Cod Adjustment and Recovery Program. The government emphasized that in emergency situations, and in the absence of a clear legislated mandate, the use of the Royal Prerogative in the form of grant payments to respond to the emergency must continue, and Parliament will continue to be asked to approve these through an appropriation act. The government also provided assurance that in such cases, when expenditures are forecast to exceed \$200 million, specific legislation will be tabled in Parliament at the earliest opportunity.

**26.98** During our follow-up, the Department advised us that the *Atlantic Fisheries Restructuring Act* provides sufficient authority for its capacity reduction component of The Atlantic Groundfish Strategy, as it did for similar

components of the Northern Cod Adjustment and Recovery Program. We noted that the Department obtained approval from Treasury Board for its capacity reduction component of the Strategy in the amount of \$80 million.

**26.99** In addressing the issue of financial management and control, the Public Accounts Committee strongly recommended that the senior financial officer be involved in developing and implementing all new programs, and that the relationship between senior financial officers and the Comptroller General be strengthened. These recommendations received general endorsement in the government's response.

**26.100** In our 1993 audit we also observed the preliminary results of the Northern Cod Adjustment and Recovery Program, which indicated that the capacity of, and dependence on, the fishery remained high. The Department had expected at the start of the Program in July 1992 that some 8,000 fishermen and plant workers would leave the fishery. The final evaluation of the Program completed in December 1994 estimated that approximately 3,100 of the 26,500 eligible program participants had actually left or were on a path to exit the fishery, leaving some 23,400 participants in the Northern cod fishery. Reducing the dependency on the Atlantic groundfish industry continues to be a challenge.

Reducing the dependency on the Atlantic groundfish industry continues to be a challenge.



## Department of Forestry — 1993, Chapter 16

*Assistant Auditor General: Maria Barrados*

*Responsible Auditor: Ellen Shillabeer*

### Background

**26.101** The objective of our 1993 audit was to determine whether the Department of Forestry could be reasonably confident that it was successfully carrying out its mission to promote the sustainable development and competitiveness of the forest sector. We audited the following activities: efforts to influence forest stewardship nationally and internationally and to provide leadership for federal forestry initiatives; research and development programs; aspects of the Model Forest Network; selected Forest Resource Development Agreements; and reporting to Parliament on activities and on the condition of Canada's forest resources.

**26.102** The Department of Natural Resources was created on 25 June 1993 by merging the Department of Energy, Mines and Resources and the Department of Forestry. The forest program is now delivered by the Canadian Forest Service within Natural Resources Canada.

### Scope

**26.103** Our follow-up involved reviewing the Department's August 1994 status report to the Public Accounts Committee on action taken in response to the recommendations of our 1993 Report. Departmental officials provided us with an update to this status report in June 1995. We discussed reported progress with them and obtained and reviewed supporting documentation.

### Conclusion

**26.104** The Canadian Forest Service has initiated action on all of our

recommendations. However, corrective action has not been completed in some areas, as explained in more detail under "Observations".

### Observations

#### Understanding forests: the Canadian Forest Service's research programs

**26.105** In 1993 we recommended that the Department of Forestry:

- define clearly at the outset the expected results for research programs and ensure that they support attainable goals;
- review research projects regularly for relevance and cost-justification;
- assess how well it is communicating its results to clients; and
- report results and related costs fully and accurately to Parliament.

**26.106** The Canadian Forest Service started improving its strategic planning and project management. In 1994 it developed a new strategic plan for science and technology programs, which identified strategic objectives, priorities for research and projected outcomes. However, the creation of Natural Resources Canada, followed by the government's science and technology review and program review, means that this strategic plan needs to be reviewed and updated.

**26.107** Guided by the results of program review, the Canadian Forest Service is now restructuring its research efforts. It intends to direct research increasingly to strategic science and technology, with a national and an international focus. As part of this restructuring, it is reviewing its



peer review and advisory processes to ensure that its research is relevant and focussed. It is also developing a new liaison and technology transfer role within each regional establishment to provide improved communications and marketing of research results. In addition, the Canadian Forest Service is establishing corporate systems for planning and tracking the costs of science and technology activities to provide more accurate reporting of this information. We note that it still needs to report more fully to Parliament the results of its research and the related costs.

**26.108** Changes in the Canadian Forest Service have contributed to a delay in improvements in its strategic planning and project management. Therefore, it has not addressed our recommendations fully. The Canadian Forest Service expects to develop a new strategic plan by the next fiscal year. It also expects to have most of its revised research program operational during 1996.

#### **Improving forest management practices: Forest Resource Development Agreements**

**26.109** We recommended that during the remaining life of the Forest Resource Development Agreements, the Department of Forestry encourage the provinces to develop their long-term plans, as required under the agreements, and provide Parliament with better information on achievements.

**26.110** Although the 1995 Budget confirmed that the present Forest Resource Development Agreements would not be renewed, we note that the Canadian Forest Service has worked with the provinces and territories to define a new co-operative framework. The framework was developed to provide direction on priorities for future federal-provincial/

territorial co-operation in forestry and was endorsed by the Canadian Council of Forest Ministers in January 1995. The Canadian Forest Service is continuing to encourage the provinces and territories to finalize their long-term plans as required under the existing agreements. Of the seven plans required, three have been completed and three are near completion.

**26.111** The Canadian Forest Service is working with the provinces and territories to improve the information available on the forest resource and to improve the reporting of this information. It intends to use its new management information system to continue to track and report the results achieved under the Forest Resource Development Agreements until they expire. However, improvements are still needed in the performance-related information that is provided to Parliament in Part III of the Estimates.

#### **Measuring progress: National Database and indicators of sustainable development**

**26.112** We recommended that the National Forestry Database Program be expanded to include non-timber values, such as information on wildlife and forest health, in order to mark progress toward sustainable development. Also, in the report to Parliament, *The State of Canada's Forests 1991*, the conclusions reached were not always supported by the indicators of sustainable development.

**26.113** The National Forestry Database Program relies on the co-operation of all members of the Canadian Council of Forest Ministers. In 1995 the Canadian Council of Forest Ministers approved the Canadian framework of criteria and indicators of sustainable development that will guide the National Forestry Database Program in both improving existing data and developing new data. An

implementation plan is being developed to identify gaps in the data and to set priorities for data collection. Thus, the National Forestry Database has not yet been expanded to include the non-timber information required to mark progress toward sustainable development.

**26.114** While the report *The State of Canada's Forests 1994* reflects the approved Canadian framework of criteria and indicators, it also states that it is not possible at present to report on all of the indicators because the data for some do not yet exist. We note that the report shows improvement in the matching of conclusions, indicators and supporting information.

**Making sustainable development operative: the Model Forest Network**

**26.115** For the Model Forest Network we recommended that the Department of Forestry encourage the model forest

partners to develop and manage toward clear and quantifiable goals for sustainable development and clarify the responsibility of its partners to share the costs of the model forests.

**26.116** The Canadian Forest Service has organized two workshops for the development of indicators of sustainable development. The results of these workshops are currently being applied at each of the model forest sites as each develops its own indicators of sustainable development.

**26.117** The Canadian Forest Service has ensured that the annual report from each model forest includes information on financial and other support provided by the model forest partners. This information is summarized in a report from the Canadian Forest Service entitled *Model Forest Program, Year in Review 1993-1994*.

## Department of Justice — Legal Advisory and Litigation Services — 1993, Chapter 17

*Assistant Auditor General: Richard B. Fadden*

*Responsible Auditor: Alan Gilmore*

### Background

**26.118** Our 1993 audit of the Department of Justice focussed on the delivery of legal advisory and litigation services, the Department's policies and practices in managing and accounting for resources used in these services, and the management of information technology.

**26.119** We found that basic management control information on workload and costs was lacking and that insufficient systematic processes were in place to manage or measure the timeliness of service provided to federal government departments. We also found that Parliament received little information on workload and performance. We recommended that the Department define, collect and report the needed information for managing litigation and legal services and improve its accountability to Parliament by providing broad-based indicators of workload and performance.

**26.120** We noted that divided responsibility and accountability for legal advisory and litigation resources between the Department and client departments had negative consequences. We recommended that the Department seek full responsibility for the resources it uses to deliver these services. We also recommended that the Department strengthen its management of Crown agents. We concluded that information technology plans were ambitious and that their development and management needed to be improved.

### Scope

**26.121** Our follow-up involved reviewing and discussing with departmental officials the Department's April 1995 Action Plan in response to the Auditor General's 1993 Report. We obtained and reviewed documentation to support reported progress.

### Conclusion

**26.122** The Department has a series of initiatives under way in response to our observations and recommendations. However, the initiatives are at different stages of progress and some work remains to be done to address our concerns fully. It is premature to conduct a full assessment of these initiatives at this time.

### Observations

**26.123** The Department is developing a system to capture data on resource use, workload volumes and costs. In addition, the Department has undertaken an initiative to jointly plan workload and priorities with client departments. As a result, agreements have been developed with several departments outlining resource use, cost sharing, and service standards. The Department is also developing systems to track service requests and response times. Initiatives are under way to improve the information on workload and performance reported to Parliament and to examine the total costs of providing legal services.

**26.124** To strengthen its management of Crown agents, the Department has prepared a mandatory training session for

newly appointed agents and has conducted several sessions. New terms and conditions of appointment have been prepared for standing agents that include supervision, training and reporting requirements.

**26.125** To improve the management of information technology, a project to standardize the departmental infrastructure has been implemented. An Information Management Plan has been designed and approved by Treasury

Board. Individual projects have been prioritized and will be managed within that plan. Strategies to manage the transition's potential impact on people have been developed and work has started.

**26.126** The Department has recently completed an extensive reorganization, which it believes will enhance the efficiency and effectiveness of operations, increase its client service orientation and promote important organizational values.



## Department of National Health and Welfare — Programs for Seniors — 1993, Chapter 18

*Assistant Auditor General: Maria Barrados*

*Responsible Auditor: Dan Rubenstein*

### Background

**26.127** Chapter 18 of our 1993 Report examined all seniors programs that were administered by the former Department of National Health and Welfare. The scope of the audit included income security programs such as Old Age Security, the Guaranteed Income Supplement and the Canada Pension Plan, as well as the 1988 Seniors Strategy intended to promote the health and independence of seniors. The pension programs are now the responsibility of Human Resources Development Canada (HRDC). The non-pension programs under the Seniors Strategy are administered by Health Canada.

**26.128** In 1993 we reported that the overall planning and co-ordination of programs for seniors was weak. The Seniors Strategy was renewed in 1993 without reliable, complete and timely information on the results of the first five years' spending of \$144 million. Our recommendations focussed on the need for fundamental improvements in three areas:

- overall planning and co-ordination, accountability and reporting for the Seniors Strategy (Health Canada);
- public understanding of pension programs (HRDC); and
- overall management of the pension programs (HRDC).

**26.129** In response to our audit, the Public Accounts Committee held two meetings that focussed on the recommendations dealing with the

pension programs administered by Human Resources Development Canada. In its Tenth Report, released in May 1995, the Committee concluded that until the implementation of the project to redesign income security programs is complete, the Department should spare no effort in finding ways to innovate where service delivery is concerned. The Committee noted that the inefficiency of present practices is costly.

### Conclusions

**26.130** Both Health Canada and Human Resources Development Canada have taken some action on our 1993 recommendations. However, significant work remains to be done in all of the three areas. Human Resources Development Canada has yet to fully address the recommendations made by the Public Accounts Committee concerning the management of the pension programs. While Health Canada has merged and created a focal point for those seniors programs under its responsibility, it has yet to complete the evaluation of the Seniors Strategy and provide information on the results of the programs in the Department's Estimates. An evaluation needs to be completed before the renewal of the Seniors Strategy, expected in 1998.

### Observations

**Initial steps at Health Canada in improving the overall planning and the co-ordination, accountability and reporting for the Seniors Strategy**

**26.131 Background.** In 1988, the federal government approved a five-year

**An evaluation needs to be completed before the renewal of the Seniors Strategy, expected in 1998.**

initiative, the Seniors Strategy, with an initial five-year budget of \$197 million. In the first five years, \$144 million was spent. The second Strategy was renewed at \$170 million over five years. The Department currently estimates that \$83 million will be spent between 1993 and 1998, for a total ten-year spending of \$227 million.

**26.132** In 1993, the Office concluded that within the Department of National Health and Welfare there was a lack of co-ordination for seniors policy and program development and communications. The Office also reported that the Department had made little effort at consultation and needs analysis prior to launching the Strategy. Objectives were not set for the Strategy as a whole or for any of the components. The Strategy was renewed without an accounting of the results of the first five years.

**26.133** The Office's recommendations relative to the Seniors Strategy had three components. First, there was a need for co-ordination of pension and other seniors programs, and for the development of the federal policy on aging. Second, there was a need to improve accountability by carrying out an evaluation of the Seniors Strategy. Third, there was a need to improve the reporting of results information in the Estimates.

**26.134 Focal point for seniors programs in Health Canada.** In April 1994, Health Canada created the Seniors Directorate. The Department consolidated the majority of seniors programs into a single organization responsible for advisory, policy, research, consultation and administrative functions. The purpose of this merger was to strengthen the co-ordination of the various elements of the Seniors Strategy. In July 1994, Cabinet approved merging three existing senior community programs into a new,

reoriented program called New Horizons: Partners in Aging. The objective of this amalgamation was to better target resources toward meeting the needs of seniors in situations of risk. An Interdepartmental Committee on Seniors Issues was started and new mechanisms for federal-provincial co-operation were established to strengthen co-ordination across the federal government and across jurisdictions. Currently, the Seniors Directorate provides a focal point for seniors issues in Health Canada and other government departments.

**26.135** A federal policy on aging is an important component of improved overall planning for seniors programs. It should provide a blueprint for promoting an integrated approach to the delivery of government programs for seniors and an aging population. There is an interdepartmental working group, under the auspices of the Interdepartmental Committee on Seniors Issues, whose mandate is to develop the federal policy on aging. This policy is being developed concurrently with the review of the retirement income system referred to in the February 1995 Budget. The effectiveness of the Seniors Directorate in co-ordinating the federal policy on aging will not be clear until the policy and the review of the retirement income system have been completed.

**26.136 Initial steps taken to improve accountability for the Seniors Strategy program.** Health Canada provided us with a draft evaluation framework that it plans to use in the evaluation of the newly established Seniors Directorate and the Seniors Strategy. The evaluation is scheduled to be completed by October 1996. As part of our follow-up work, we reviewed the framework. Our objective was to assess whether the proposed evaluation could provide an appropriate

accounting for results. We expected that the evaluation would deal with four fundamental questions that would help Health Canada ensure accountability, achieve better value for money and increase flexibility of its health strategies for groups at risk:

- **Rationale.** What particular needs do seniors have that this program continues to address? What are the nature and extent of these needs?
- **Alternatives.** Who else is involved in the seniors programming area and is there an alternative to federal involvement in programs for seniors?
- **Program success.** What effects has the Seniors Strategy had on the independence, health and well-being of seniors? Has the Strategy met its objectives, without significant unwanted outcomes?
- **Cost effectiveness.** Is the Strategy the most cost-effective means for achieving the desired results, or are there other intervention strategies that would be more cost-effective?

**26.137** We observed that workable program objectives have been developed since 1993, but no formal analysis of the need for this type of federal program has yet been done. The proposed draft evaluation framework will deal, in some measure, with most aspects of our four questions. However, we have concerns that the evaluation design, as proposed in the draft framework, will not generate adequate information on program need, outcomes and alternatives for making decisions about the renewal of the Seniors Strategy in 1998.

**26.138** In our opinion, there are significant omissions in the draft evaluation design — particularly with respect to examining the achievement of all program objectives and potential

unwanted side effects. In addition, the indicators proposed are sometimes tangential to, and insufficient to answer, the evaluation questions that will be addressed. Our review of the draft methodology raises further concerns about the objectivity of some of the data to be used in the evaluation and, therefore, the potential validity of evaluation findings.

**26.139** In summary, the design proposed in the draft framework will need to be made more rigorous if the evaluation is to provide the evidence necessary for strategic decisions about continuing, discontinuing or revamping the Seniors Strategy. We will be following up on the evaluation after it is completed, focussing on the extent to which it has provided that evidence.

**26.140 Some changes in reporting on the Seniors Strategy in Part III of the Estimates.** The Office recommended that the Seniors Strategy be identified as a distinct initiative in the Estimates, presenting current and future financial data as well as information on the performance of the Strategy programs and components. In the 1995–96 Estimates, the Seniors Strategy initiatives are discussed as a distinct entity. Financial information is provided for 1993–94 and 1994–95. However, there is no performance information and, because no evaluation had been done, no information on outcomes.

#### **Efforts at HRDC to improve the public understanding and management of pension programs**

**26.141 Disclosure.** The 1995–96 Estimates Part III have been extended to include information on projected future costs of Old Age Security, Guaranteed Income Supplement, and Spouses Allowance programs for the next 10 years.



**Human Resources  
Development Canada  
has taken a number of  
steps to address  
program and systems  
deficiencies.**

**26.142** As well, Human Resources Development Canada (HRDC) has launched a five-year communications strategy for improving public understanding of the Canada Pension Plan. The Public Accounts Committee (PAC) has recommended that, by 31 January 1996, the Department inform the Committee of the cost and progress made in implementing its communication strategy. The PAC also recommends the Department set up mechanisms in order to evaluate and be accountable for the results of the strategy.

**26.143 Efforts to improve the management of pension programs.** Human Resources Development Canada has produced a financial management accountability framework for the Canada Pension Plan. The framework defines the distribution of HRDC responsibilities between Income Security Programs and Financial and Administration Services and clarifies their respective responsibilities.

**26.144** The Department has developed a draft business plan but so far the plan is not sufficiently comprehensive, nor has it been given the degree of prominence that we would expect for such a crucial management tool. For example, the business plan needs to be broadened to

bring together in one document the responsibilities of the ministers of National Revenue, Finance and Human Resources Development.

**26.145** In 1993 we observed significant deficiencies in the management of the pension programs, identifying overpayments ranging from \$120 million to \$200 million each year. In response to our observation that the systems and procedures in place for recording and collecting overpayments were completely inadequate, the Department embarked on a three-year project to implement an accounts receivable and collection system. In 1995–96, the yearly increase in collections is estimated to be \$4.5 million.

**26.146** During 1995, Human Resources Development Canada took a number of steps to address the program and systems deficiencies that contributed to the overpayment problem. Included are steps aimed at preventing overpayments from occurring in the first place.

**26.147** The Public Accounts Committee has recommended that, by 31 January 1996 at the latest, Human Resources Development Canada report on the overpayment situation as at 31 December 1995. We will follow this situation very closely.



## Merchandise Trade Statistics — 1993, Chapter 23

Assistant Auditor General: Maria Barrados

### Background

**26.148** In 1993 we reported on the activities relating to the collection, verification and reporting of merchandise trade statistics by Revenue Canada (Customs) and Statistics Canada. We made a number of observations and recommendations concerning the verification of merchandise trade data, the operating relationship between the two entities, reporting of merchandise exports, and implementation of new techniques for data collection and verification. Our follow-up consisted of a review of status reports prepared by the departments on the progress made with respect to our recommendations. We also reviewed the supporting documentation prepared by the two organizations and had discussions with their officials.

### Conclusion

**26.149** Both Revenue Canada and Statistics Canada have initiated action on all our recommendations. However, it is too early to assess the impact of some initiatives that are recent or in progress. Communication between the two organizations has continued to improve. Major efforts to address the under-reporting of merchandise exports are continuing.

### Observations

#### Revenue Canada's verification of commercial entries

**26.150** In our 1993 chapter, we observed that commodity specialists in Revenue Canada often did not verify commercial entries and that results of the verification done were not reported to Statistics

Canada. We recommended that the two entities review the effect of Statistics Canada's requirements on Revenue Canada's workload. We also recommended that they develop appropriate indicators of verification performance. Further, we found that the significance of errors detected by Revenue Canada through its compliance verification and audit activities for merchandise trade data had not been determined and recommended that an analysis of this matter be performed.

**26.151** In 1992–93, Revenue Canada conducted pilot audits of importers to explore periodic verification of compliance as an alternative to ongoing examination of individual commercial entries for verification of import data. Based on the results of these pilot audits, Revenue Canada has decided to adopt this approach for medium-sized and large importers, which collectively account for approximately 90 percent of the value of import trade.

**26.152** Statistics Canada is analyzing the results of the 1992–93 pilot audits to determine if they satisfy its needs in respect of merchandise trade data. Statistics Canada has helped design sampling methodology to be used in periodic verification to ensure that the results would be valid for testing the quality of merchandise trade data. The Department has also provided Revenue Canada officers with training in that area.

**26.153** Revenue Canada is pilot-testing an automated system to generate the reports required to support periodic verification. Nation-wide implementation of the system is expected by the spring of 1996. According to the Department,

**Both Revenue Canada and Statistics Canada have initiated action on all our recommendations but it is too early to assess the impact of some initiatives that are recent or in progress.**

indicators of both effectiveness and workload will be an integral part of the new system.

**26.154** Transactions that originate from importers not covered by periodic verification still account for a large proportion of the commercial entries. As a result, Revenue Canada continues to perform manual review and adjustment procedures on selected individual entries. Statistics Canada receives some reports on these verifications but the reports do not provide sufficient information to meet its requirements. Discussions between the two organizations are ongoing to resolve the problem.

#### **Statistics Canada's verification and imputation procedures**

**26.155** In 1993 we noted that Statistics Canada performed verification and imputation procedures in addition to those performed by Revenue Canada. We found that those procedures did not always improve data quality and recommended that Statistics Canada assess the effectiveness of the procedures and the opportunities to apply better quality control techniques to update unit values used to verify trade data. Our follow-up revealed that the Department is in the process of re-engineering its trade statistics program over a two-year period. That includes a plan to redevelop its edit and imputation methodologies.

#### **Operating relationships: Revenue Canada and Statistics Canada**

**26.156** In 1993 we noted a lack of prompt action by the two entities on certain reports that passed between them dealing with data quality issues. We recommended that they improve their communication so that timely action could occur. The two entities report that they have now established a close working relationship and maintain a high level of

communication and co-ordination on issues of data quality.

#### **Merchandise trade data on exports**

**26.157** In our 1993 chapter, we recommended that the two organizations work with United States agencies to review current practices in the recording of trade data on exports from Canada to other countries through the United States, in order to address an ongoing problem of under-reporting.

**26.158** Efforts are continuing between the two organizations and their U.S. counterparts to address deficiencies in the recording of these in-transit trade data. They include carrying out joint operational reviews and making arrangements with U.S. agencies to ensure Revenue Canada's access to information regarding importation and goods in transit. Revenue Canada is also implementing, in stages, a program of measures to address the non-reporting of exports by exporters. It is proposed that one element of this program consists of sanctions for non-compliance, to be introduced in or around April 1996.

#### **Alternative data sources**

**26.159** In 1993 Statistics Canada was investigating the use of surveys as an alternative to existing sources of import data. We recommended that, should mechanisms for collecting data change, Statistics Canada and Revenue Canada ensure that the quality of data be maintained. Since our audit, neither the use of surveys nor other major changes have been introduced as alternative sources of import data. Both entities have indicated that they are committed to maintaining the quality of trade statistics, whatever alternative methods of data collection might ultimately be put in place.

## Regulatory Review: Parliamentary Control over the Raising of Revenues by Fees — 1993, Chapter 25

Assistant Auditor General: Richard B. Fadden

Responsible Auditor: Alan Gilmore

### Background

**26.160** Our 1993 Report recommended that the Treasury Board:

- review and report to Parliament on the adequacy of the current legislative and administrative framework for establishing user fees;
- review and report to Parliament on alternative procedures that could be established to ensure that Parliament has appropriate opportunity and information to decide which user fees to review, regardless of how they are established;
- provide Parliament with government-wide summary information on fees being charged; and
- ensure that the fees are developed in accordance with the principles of the regulatory process if other statutory authority is being used to establish fees.

### Conclusion

**26.161** We reviewed the actions taken by the Treasury Board to respond to our concerns. The Board has undertaken several initiatives; for example, it is reviewing the adequacy of the current legislative and administrative framework for user fees, and its policy on external user charges. However, officials told us that it was difficult to set milestones for results of its initiatives at this time.

**26.162** It is thus too early to assess the initiatives started by Treasury Board.

### Observations

**26.163** In 1992 and 1993, Treasury Board estimated that revenues from user fees would exceed \$3 billion. Individuals, companies and other jurisdictions are charged fees for the use of government facilities, services and goods. For example, fees are charged for passports, books and maps, and making photocopies.

**26.164** User fees are established pursuant to departmental legislation and the *Financial Administration Act (FAA)*, and by contracts with users.

**26.165** Fees established by contracts and other non-regulatory means are not subject to the regulatory process. The regulatory process seeks to ensure adherence to such principles as providing a full opportunity for public consultation and an assessment of proposals to ensure that benefits clearly exceed costs.

**26.166** A program review was announced in the 1994 Budget “to ensure that the government’s diminished resources are directed to the highest priority requirements and to those areas where the federal government is best placed to deliver services.” Its main objective was to review all federal programs in order to bring about the most effective and cost-efficient way of delivering programs and services that are appropriate to the federal government’s role in the Canadian federation.

**26.167** Over the fall of 1994, departments prepared action plans outlining their strategic priorities and proposals.

**Fees established by contracts and other non-regulatory means are not subject to the regulatory process.**



The results of the review were not available during our follow-up.

**26.168** On 27 February 1995, the federal Budget Plan described the key actions planned by departments following the program review. Among those actions were plans to introduce new cost-recovery initiatives or increases to existing fees to cover a greater proportion of the costs of certain programs. Examples include fees for food and meat inspection, immigration and citizenship applications, drug approvals and fisheries inspection.

**26.169** In the spring of 1995, Parliament approved amendments to the legislation relating to the departments of Industry and Canadian Heritage. Among the amendments was a delegation of authority to the respective ministers to fix user fees for departmental services, facilities, product, rights and privileges.

**26.170** Provisions covering consultation, publication and reference to the Standing Joint Committee for the Scrutiny of Regulations for review were also included. Public Works and Government Services Canada is seeking similar ministerial powers. The bill introduced in the fall of 1994 is still before the House of Commons. Although these acts do not describe the method by which the ministers may exercise their authority, they do allow these fees to be established by contract.

#### **Adequacy of the current legislative and administrative framework**

**26.171** In September 1994, Treasury Board initiated a review of the current approval process for user fees and the applicability of the regulatory process in the establishment of such fees, including the use of non-statutory instruments such as contracts. The objective was to determine how the approval process might be improved, simplified or tailored to different circumstances while maintaining transparency and openness to scrutiny.

**26.172** The results of the review were not available during our follow-up and officials told us that it was difficult to set a date for the review's completion.

#### **Alternative procedures to ensure that Parliament has appropriate opportunity and information to decide which user fees to review**

**26.173** On 26 April 1995, the Minister of Justice introduced amendments to the *Statutory Instruments Act*.

**26.174** The new *Regulations Act*, like the Act it may replace, states the procedures to be followed for creating federal regulations. It seeks to ensure that regulations are legal, enforceable and accessible to the public and that the government departments that prepare regulations remain accountable to Parliament.

**26.175** At the time of writing this follow-up report, the *Regulations Act* was still before Parliament for consideration.

#### **Government-wide summary information on fees being charged**

**26.176** The Treasury Board compiled a government-wide summary information for 1993 of the revenues raised, by authorities under which they are established. The information showed that roughly 75 percent of revenues, or \$2.5 billion, were raised through specific departmental or program legislation, 15 percent or \$0.5 billion through the *Financial Administration Act* and 10 percent or \$0.3 billion through ministerial authority to contract. User fees internal to the government were not included.

**26.177** The Board is also reviewing Part III of the Estimates, which provides year-to-year changes in revenue forecasts, to determine what improvements could be made in presentation and disclosure of revenue information.



**Development of fees in accordance with the principles of the regulatory process**

**26.178** The basic principles of the regulatory process are:

- clear accountability of ministers and officials;
- full opportunity for public consultation and participation in the regulatory process;
- an assessment of proposed regulations to ensure that benefits clearly exceed costs;
- clear and reliable public information on the need for regulations;
- an evaluation of the effectiveness of regulatory programs; and

- a secure foundation in law for actions of regulatory authorities.

**26.179** The Treasury Board has undertaken the following initiatives to support adherence with the principles:

- plans to update the Treasury Board policy on external user charges and the related guide to user fees;
- reiteration of the basic principles of the external user charge policy through departmental papers, for example, clarification of the policy application; and
- provision of additional guidance to departments on prescribing user fees and charges under the *Financial Administration Act*, for example, publication of fees, costing principles and the use of price adjustments.

## Regulatory Review: Pulp and Paper Regulations — 1993, Chapter 26

*Assistant Auditor General: Richard B. Fadden*

*Responsible Auditor: Alan Gilmore*

**We reported that parliamentarians and stakeholders were not comprehensively and equally informed about key issues affecting the effectiveness and cost of the pulp and paper regulations.**

### Background

**26.180** Our 1993 Report reviewed the Pulp and Paper Effluent Regulations, the Pulp and Paper Mill Effluent Chlorinated Dioxins and Furans Regulations, and the Pulp and Paper Mill Defoamer and Wood Chip Regulations. These regulations are the responsibility of Environment Canada. Their purpose is to control pollutants from pulp and paper mills.

**26.181** We reported that parliamentarians and stakeholders were not comprehensively and equally informed about key issues affecting the effectiveness and cost of the pulp and paper regulations.

**26.182** These key issues included:

- alternative and possibly more efficient or more environmentally sensitive solutions;
- potential overlaps with provincial pulp and paper regulations;
- industry and environmentalist concerns about the effectiveness of the effluent regulations;
- the advantages and disadvantages of using site-specific pollution control standards based on the assimilative capacity of a watershed; and
- the absence of an assessment of the effects of pulp and paper regulations on human health.

### Conclusion

**26.183** We reviewed the actions taken by the Department to respond to our

concerns. Although the Department has undertaken significant initiatives, the first results will not be evident until the end of 1995. It is thus too early for us to assess those initiatives.

**26.184** Also, the Department has not yet addressed the matter of assessing the effects of the regulations on human health and the environment in general.

### Observations

**26.185** The Pulp and Paper Effluent Regulations came into effect 7 May 1992. Promulgated under the authority of the *Fisheries Act*, they are intended to control conventional pollutants from pulp and paper mills in order to protect fish and their habitat. Pollutants of concern are suspended solids, biochemical oxygen-demanding matter and effluent that is acutely lethal to fish.

**26.186** The regulations also require the industry to establish the Environmental Effects Monitoring Program. On a three-year cycle, each mill is required to provide local information on whether deposits of deleterious substances in waters inhabited by fish have altered, disrupted or destroyed fish habitat. The information will be used to evaluate the effectiveness of existing control measures and the need for further measures.

**26.187** The Pulp and Paper Mill Effluent Chlorinated Dioxins and Furans Regulations and the Pulp and Paper Mill Defoamer and Wood Chip Regulations also came into effect 7 May 1992. They were promulgated under the authority of the *Canadian Environmental Protection*

*Act.* The regulations control two members of the family of chlorinated dioxins and furans. The first regulation is directed solely at the use of chlorine bleaching.

#### **Overlap with provincial regulations**

**26.188** The Department has undertaken several initiatives related to our concerns. It is pursuing the reduction of overlap with provincial regulations through both multilateral and bilateral agreements with provinces and territories, which specify work-sharing arrangements. The multilateral approach is being pursued in the Atlantic Region as well as through the Harmonization Initiative of the Canadian Council of Ministers of the Environment.

**26.189** The Department's bilateral efforts have resulted in signed "one window" agreements with four provinces and one territory. Although the nature and scope of these agreements vary, they generally provide for co-ordinated compliance and enforcement activities or for provincial officials to act on behalf of the federal government in these areas. The agreements do not change federal or provincial jurisdictions and the federal government must continue to report to Parliament on how it has fulfilled its obligations. The Department is continuing negotiations with other provinces to reach additional agreements.

#### **Pulp and paper regulations implementation**

**26.190** Departmental information on dioxin and furan releases indicates that the pulp and paper industry presently conforms with the regulatory requirements.

**26.191** Departmental reports also indicate that the industry has reduced discharges of total suspended solids, on aggregate, to below regulatory limits. Deposits of biochemical oxygen-

demanding materials and acutely lethal effluents are currently controlled under higher, interim limits contained in transitional authorization extensions. The Department approved these extensions on the basis of requests from mills to allow time to install the necessary controls. All mills will be subject to the full provision of the regulations on 1 January 1996.

#### **Environmental Effects Monitoring Program**

**26.192** The data to assess the effectiveness of the regulations, including long-term impacts, are expected to come through the Environmental Effects Monitoring Program. The Program is an important component of the Pulp and Paper Effluent Regulations and all mills must comply.

**26.193** Our 1993 Report noted that the Program's guidelines had not been finalized on time and that consultation on the guidelines was not satisfactory. To address these matters, officials and scientists from other government departments, industry and consulting firms were invited to workshops and symposiums to advance scientific knowledge and share technical information about pulp and paper and other environmental effects monitoring programs in Canada.

**26.194** In early 1995 the Department distributed further technical guidance, and made available to industry for the first cycle of reports a recommended outline for reporting of data. The first reports under the Program are due 1 April 1996.

**26.195** The Department plans to use the first reports as baseline data to compare with at least two other reporting cycles over a nine-year period. In making such comparisons, the Department will have to take into account the fact that 78 out of 156 mills were allowed by transitional

**The Department's bilateral efforts have resulted in signed "one window" agreements with four provinces and one territory.**

authorization extensions to continue discharges at the preregulation levels until the end of 1995. The Department states that the impact of the extensions will be clearly recognized when comparing the first reports to the long-term effects.

**26.196** The Department plans to modify the Environmental Effects Monitoring Program to increase its capacity for site-specific assessment of pollution problems. For the next monitoring cycle, it plans to use a multistakeholder consultation approach to improve the Program and identify gaps in research.

#### **Other initiatives**

**26.197** Other significant departmental initiatives include:

- implementing a Strategic Options Process, based on the principles of public participation, openness and transparency, to identify and evaluate with key partners and stakeholders a range of tools for meeting environmental objectives;
- revising the *Canadian Environmental Protection Act* to allow the increased use of alternatives to regulations; and
- formulating a departmental policy on the assessment of the economic impact of proposed environmental measures.



# Chapter 27

## Other Audit Observations

*The work that led to other audit observations was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.*

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## Other Audit Observations

### Main Points

**27.1** The *Auditor General Act* requires the Auditor General to include in his annual Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

**27.2** The “Other Audit Observations” chapter fulfils a special role in the annual Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

**27.3** The chapter contains a number of observations concerning departmental expenditures and revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

**27.4** Observations reported cover the following:

- subsidy paid for uneconomic main lines that raises concerns about accountability and transparency of the process used;
- interest not being charged on overdue non-tax receivables; and
- funds reallocated under the Nova Scotia Highway Improvement Program.

**27.5** Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.



## Introduction

**27.6** This chapter contains matters of significance that are not included elsewhere in the annual Report and that we believe should be drawn to the attention of the House of Commons. The matters reported were noted during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

**27.7** Section 7(2) of the *Auditor General Act* requires the Auditor General to call to the attention of the House of Commons any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property; to secure an effective check on the assessment, collection and proper allocation of the revenue; and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament;

- money has been expended without due regard to economy or efficiency; or
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

**27.8** Each of the matters of significance reported in this chapter was examined in accordance with generally accepted auditing standards; accordingly, our examinations included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions about matters not examined. The instances that we have observed are described in this chapter under the appropriate department headings.

**27.9** Consistent with Office policy on the follow-up of matters in our annual Report, other audit observations included in this chapter are normally followed up two years after initial reporting. In our follow-up of the observations included in our 1993 Report, we found that for four of the ten observations, either corrective action had been taken to address the matter or we no longer considered the matter to be an outstanding issue. Six observations remain outstanding because they involve matters that we are continuing to monitor, and any lack of corrective action will be reported as deemed appropriate.

**This chapter contains a number of observations on matters of significance not included elsewhere in the annual Report.**

## National Transportation Agency

Assistant Auditor General: Shahid Minto

Responsible Auditor: Hugh A. McRoberts

### Subsidy to Canadian Pacific Limited for the operation of uneconomic main lines raises concerns about accountability and the transparency of the process used by the government

*Pursuant to an Order-in-Council, the National Transportation Agency approved payment to Canadian Pacific Limited of a subsidy of \$4.1 million, under sections 178 and 179 of the National Transportation Act, 1987, to reimburse the railway for the costs of continuing to operate two sections of what the Agency found to be its main line in Eastern Canada beyond the date on which the Agency had originally ordered them abandoned. However, those sections of the Act provide for subsidy payments only for the operation of uneconomic branch lines. Although according to the Agency (Decision No. 223–R–1994) it is arguable that the Order-in-Council directing this payment pursuant to sections 178 and 179 may have exceeded its jurisdiction, the Agency was of the opinion that the Order-in-Council had deemed the lines to be branch lines and hence obliged it to make the payment.*

*This raises questions about accountability and about the transparency of the process used by the government, and about whether, as a result, Parliament's opportunity to review the decision has been abridged. The new legislation pertaining to the Agency, currently before the House, contains similar provisions with respect to the processes to be used, and it is in this context that we report this note.*

### Background

**27.10 February 1993.** Canadian Pacific Limited filed applications with the National Transportation Agency to abandon a group of lines associated with its route from Sherbrooke, Quebec to Saint John, New Brunswick (see Exhibit 27.1). During June of that year, the Agency held public hearings on the application to abandon. The Agency concluded on **23 August 1993** that the lines were uneconomic and ordered their abandonment one year from that date.

**27.11 September 1993.** The Governor in Council, on the recommendation of the Minister of Transport of the day, issued Order-in-Council P.C. 1993–1864. The Order directed that the abandonment date

be changed from 23 August 1994 to 1 January 1995. It also directed that, pursuant to sections 178 and 179 of the *National Transportation Act, 1987*, Canadian Pacific Limited be paid for the continued operation of the lines until they were abandoned.

**27.12 January 1994.** Canadian Pacific filed an interim claim for the losses incurred in the operation of its uneconomic branch lines during 1993. This claim included the lines referred to in paragraph 27.10. On **5 May 1994**, following a hearing on written submissions, the Agency ruled that certain lines for which losses were claimed (referred to in the abandonment order and Order-in-Council) were not branch lines but were part of the main line of the



railway (see Exhibit 27.2) and therefore were not eligible for the subsidy for 1993. As a result, it reduced the payment for Canadian Pacific's 1993 branch line claim by the amounts claimed for main lines.

**27.13 January 1995.** Canadian Pacific filed an interim claim for the losses incurred in the operation of its uneconomic branch lines during 1994. The claim included losses covering the period from 23 August 1994 to 1 January 1995 on the main lines previously referred to in Exhibit 27.2. On **18 April 1995**, the Agency approved a payment under sections 178 and 179 of the *National Transportation Act*, 1987 of \$4.1 million

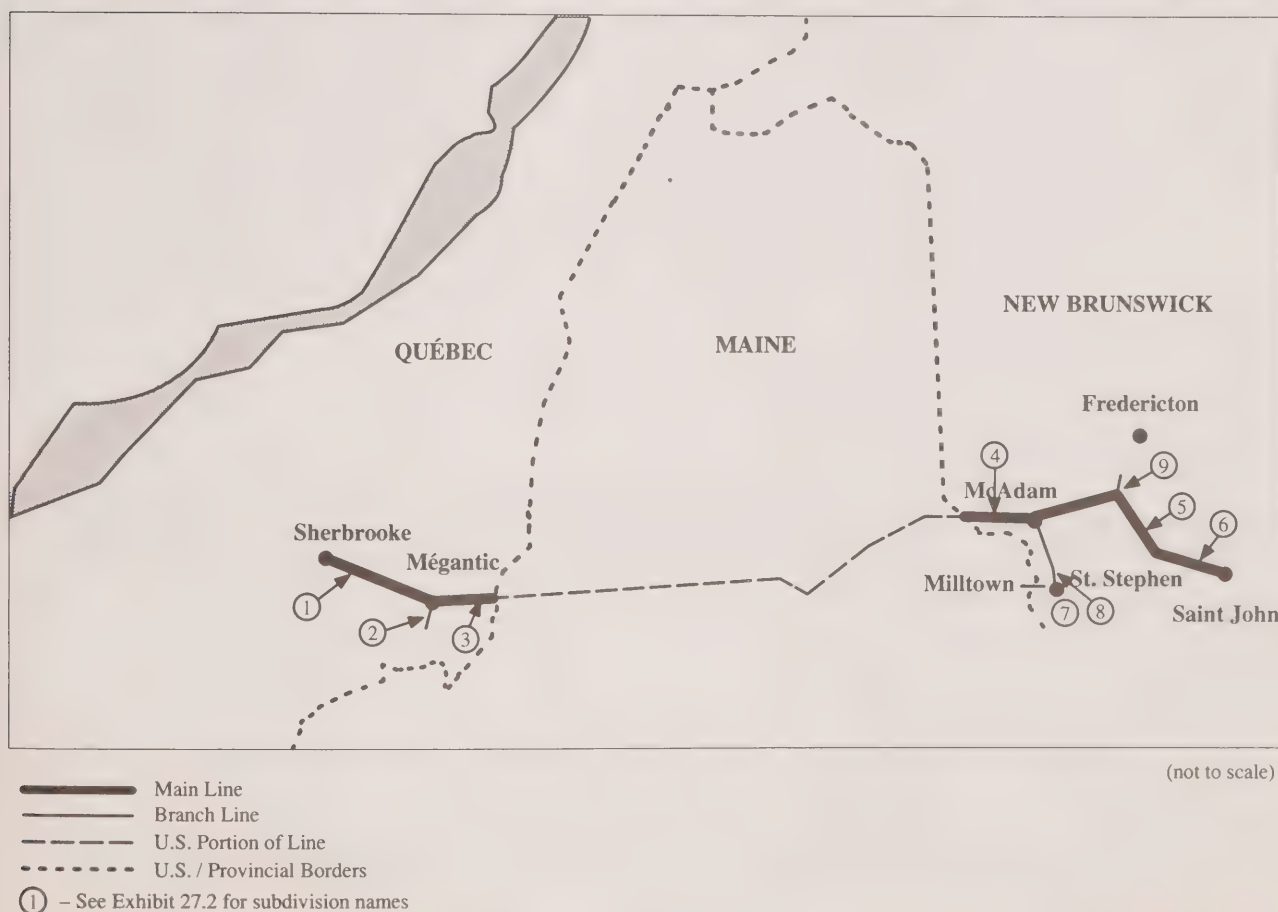
to Canadian Pacific for losses incurred on the operation of these main lines (see Exhibit 27.2) for the period from 23 August 1994 to 1 January 1995. On this basis, a payment of \$3.7 million (\$4.1 million less a holdback of \$400,000) was made to Canadian Pacific.

## Issues

**27.14** According to the National Transportation Agency, the authority for the payment was the Order-in-Council given on 23 September 1993. In considering that authority, the Agency stated that since the lines in question are main lines, it is arguable that the

Exhibit 27.1

Map of Lines Involved in Abandonment Application



Order-in-Council exceeded its jurisdiction by requiring payment of a subsidy pursuant to sections 178 and 179 of the *National Transportation Act, 1987*.

**27.15** However, the Agency was advised by its counsel that the courts might be reluctant to review and strike down such an Order-in-Council, even if Council had exceeded its jurisdiction in making the Order, where the Order dealt with a matter of public convenience and general policy. The National Transportation Agency also noted that, since the Order was made, it had been neither challenged nor varied. Based on this, the Agency concluded that it must accept that the Minister of the day had deemed the main lines to be branch lines for the purposes of paying the subsidy and must comply with the order to pay Canadian Pacific for its losses in operating these lines for the period from 23 August 1994 to 1 January 1995.

**27.16** This outcome raises concerns about accountability and about the transparency of the process used by the government in giving directions to the Agency.

**27.17** The *National Transportation Act, 1987* provides for two ways in which Council may give direction to the Agency. First, under section 64, Council has the power to vary any decision, order, rule or regulation of the Agency. It was this section that Council used to vary the date of the abandonment orders in this case. However, as the Agency had not made a decision, order, rule or regulation with respect to the classification of these lines of rail at the time the Order-in-Council was made, section 64, according to the Agency, arguably may not be invoked for a subject matter on which the Agency had not made a decision, specifically whether these lines are main lines or branch lines.

**27.18** Second, the *National Transportation Act, 1987* does provide a method whereby Council may decide to give direction to the Agency on policy matters pursuant to sections 23 through 26, where the matter is not before the Agency on the date the direction is given. These sections provide that before direction from Council becomes binding on the Agency, the direction must be tabled in both Houses of Parliament, and must forthwith be referred to the

#### Exhibit 27.2

Classification of Lines of Rail  
Considered by the NTA in Its  
5 May 1994 Decision:  
No. 223-R-1994

Subdivision	From Mile	To Mile	Miles	Class	Exhibit 27.1 Reference
Sherbrooke	0	68.4	68.4	Main	1
Tring	57.7	59.1	1.4	Branch	2
Moosehead	101.7	117.1	15.4	Main	3
Mattawamkeag	0	5.6	5.6	Main	4
McAdam	0.2	84.4	84.2	Main	5
West Saint John Spur	0	3.2	3.2	Main	6
St. Stephen	0	33.9	33.9	Branch	7
Milltown Spur	0	4.6	4.6	Branch	8
Fredericton	0	1	1	Branch	9
<b>Total Miles</b>				<b>217.7</b>	
<b>Total Main Line</b>				<b>176.8</b>	

appropriate committee of the House for its consideration. The direction does not then come into effect until the thirty-first sitting day of Parliament after the tabling has occurred. This process, which was not followed by the government in this instance, is more transparent and provides for greater accountability for the government in giving direction to the Agency than the process used. However, as the matter of whether the lines were or were not main lines was still arguably before the Agency, it is possible that even this process would not have been available.

## Conclusion

**27.19** By proceeding in the manner in which the government did, the right of Parliament, as set out in the *National*

*Transportation Act, 1987*, to review and hold the government accountable for the direction to deem a main line to be a branch line may have been abridged.

**27.20** At the time of our audit, Parliament was considering Bill 101, which proposes to reconstitute the National Transportation Agency as the Canadian Transportation Agency with different powers in many areas. The new Bill does not propose the continuation of branch line subsidies. However, the provisions regarding the two ways in which the government may give direction to the Agency remain the same under Bill C-101. We believe that the matters discussed in this note may be of value to members of Parliament in considering the new legislation and, in particular, whether Parliament should provide clearer direction on the circumstances under which each provision should be invoked.

## Treasury Board Secretariat

Assistant Auditor General: David H. Roth

Responsible Auditor: Trevor Shaw

### Interest not charged on overdue non-tax receivables

*The government has foregone the opportunity to charge millions of dollars in interest since 1991 on overdue non-tax receivables.*

### Background

**27.21** Cash management is an important part of controlling the costs of government. The Cash Management Improvement Program of the Treasury Board Secretariat began in 1985. Since then, the Treasury Board has reported significant savings as a result of this Program.

**27.22** An important principle of cash management is that amounts owing to the government should be collected on or before the due date and interest should be charged on late payments, where this is permitted under legislation or agreement. Whether or not interest is charged on non-tax receivables depends on whether specific authorities and agreements exist to charge interest.

**27.23** The need for a general authority to charge interest on overdue accounts was formally recognized when section 155.1 of the *Financial Administration Act* (FAA) came into effect in May 1991. This section stipulates that, unless otherwise provided, interest is payable to the government in accordance with regulations on any amount owed as a result of an overpayment or an erroneous payment, or under any other Act of Parliament, regulation, order, contract or arrangement. Regulations have been drafted by the Treasury Board Secretariat, are in the process of legal review, and are expected to be issued sometime in 1995 or

1996. Until these new regulations come into force, departments lack the power to unilaterally charge interest where no other authority applies or where interest has not been negotiated as part of agreements.

**27.24** According to the accounts of Canada, 55 departments and agencies reported \$4.1 billion (net of allowance for doubtful accounts of \$1.7 billion) of total non-tax receivables as at 31 March 1995. Of this total, short-term receivables amounted to \$2.5 billion. Short-term non-tax receivables usually do not involve the charging of interest for overdue amounts. These include, for example, receivables arising from the sale of assets and the recovery of expenditures.

**27.25** Our analysis indicates that approximately \$222 million of short-term receivables as at 31 March 1995 had the potential to attract interest. This figure results from reducing the \$2.5 billion total by subtracting all accounts less than 90 days old, unemployment insurance overpayments and penalties receivable, interest-bearing student loans owed to the Crown, and other particular receivables.

**27.26** Few of the 55 departments and agencies appear to be charging interest on overdue accounts. According to data in the central accounting system, only eight entities reported collecting such interest during the 1994–95 fiscal year. In total, the amount reported was less than \$1 million.



## Issues

**27.27** The government has foregone the opportunity to charge millions of dollars of interest on overdue accounts since 1991. Using a base of \$222 million for 1994–95, we estimate that the government may have potentially foregone up to \$17 million in annual interest charges with respect to overdue short-term receivables. This estimate does not include consideration of any interest on unemployment insurance receivables or the potential for additional interest on long-term receivables. The potential amount of additional interest that could be charged on non-tax receivables cannot be practically determined until new regulations pursuant to the FAA are implemented by departments. The actual interest received would depend on the collection of the accounts receivable.

**27.28** Regulations for charging interest pursuant to the FAA have taken five years to develop. The Secretariat informed us that it takes time to develop regulations for a variety of reasons. These include

attention being given to other priority areas, availability of expert staff, and complexities involved in the charging of interest. By the time the new interest regulations come into force, five years will have elapsed since legislation was passed. This has a consequential financial cost.

**27.29** The issuance of these regulations will require departments to review existing authorities, contract arrangements, financial practices, and accounts receivable information. Treasury Board Secretariat has informed us that, as part of maintaining effective cash management, it will provide guidance to departments so they can prepare for the charging of interest under new regulations.

## Conclusion

**27.30** Due to the time required to implement regulations, the government has foregone the opportunity to charge millions of dollars of interest on overdue accounts since 1991 and to further encourage the timely payment of amounts due to the Crown.

## Transport Canada

Assistant Auditor General: Shahid Minto

Responsible Auditor: Hugh A. McRoberts

### Funds reallocated under the Nova Scotia Highway Improvement Program Agreement from Highway 104 to the Fleur-de-Lis Trail

*Funds allocated under the Nova Scotia Strategic Highway Improvement Program Agreement were transferred from Highway 104 to the Fleur-de-Lis Trail. The transaction was within the authority of the federal Minister of Transport. The two governments have since agreed to reverse their earlier decision.*

### Background

**27.31** The Auditor General of Nova Scotia's Report of 6 April 1995 raised certain issues about the transfer of money from one project to another under this agreement. Because those issues also had potential federal implications, we decided to examine the transaction. In particular, we were concerned with whether there was proper authority for this transfer of money.

#### The Agreement

**27.32 December 1992.** The Strategic Capital Investment Initiative was announced as part of the federal Budget. A major element of that initiative became the Strategic Highways Improvement Program.

**27.33 February 1993.** Cabinet authorized \$515 million in funding for federal-provincial agreements under the Strategic Highways Improvement Program, including \$70 million for Nova Scotia. The federal funds were to be matched by the provinces on a dollar-for-dollar basis. Cabinet also approved a *pro forma* agreement that authorized the Minister of Transport to enter into agreements with the provinces that were substantially in accordance with the *pro forma* agreement.

**27.34** The agreement is in three parts: the agreement proper; Schedule A, which sets out the elements of the provincial highway strategy to be pursued under the agreement; and Schedule B, which lists the specific projects approved for funding under the agreement.

**27.35** The *pro forma* agreement specifies that the federal contribution cannot be increased without federal Cabinet approval; the rest of the agreement, including Schedule A, the program strategy, may be amended if the federal and provincial ministers agree. The agreement also creates a Management Committee of two officials, one appointed by each minister, which is empowered to amend Schedule B.

**27.36 April 1993.** The federal Minister of Transport and the Nova Scotia Minister of Transportation and Communications signed a federal-provincial Strategic Highways Improvement Program (SHIP) agreement. Initially, the agreement was intended to apply all of the funds to those highways in Nova Scotia that were part of the National Highway System.

### Issues

#### The Fleur-de-Lis Trail Amendment

**27.37 January 1994.** On 29 May 1995, the Minister of Transport reported in the House of Commons that a meeting had

been held in January 1994 with the Minister of Transportation and Communications for Nova Scotia. During the meeting the ministers had reached an agreement in principle to provide funding for the Fleur-de-Lis Trail under the SHIP agreement.

**27.38 17 February 1994.** The Office of the Minister of Transport advised Transport Canada staff of the decision by the federal and provincial ministers to add the Fleur-de-Lis Trail to the projects included under the agreement. The project was to be funded within the existing agreement. The Minister's Office requested Transport Canada to advise the federal member of the Management Committee, and requested that the changes be made at the Committee's earliest convenience.

**27.39 18 February 1994.** The federal Minister of Public Works and Government Services, on behalf of the federal Minister of Transport, and the provincial Minister of Transportation and Communications announced the provision of funding for the Fleur-de-Lis Trail<sup>1</sup>. A total of \$26 million, including \$13 million in federal funding, was provided.

**27.40 May 1994.** Pursuant to the 17 February 1994 instructions from the Office of the Minister, the Management Committee amended Schedule B of the agreement. The funding of \$26 million was transferred from a project on Highway 104 to the project for the Fleur-de-Lis Trail. The Fleur-de-Lis Trail is a secondary highway outside of the National Highway System. The Management Committee did not, however, prepare an amending document for ministers to amend the sections of the agreement that require all projects be in the National Highway System.

## Conclusion

**27.41** The agreement assigns a duty of "project review and approval" to the Management Committee. Normally, such a review would have required that a thorough analysis of the priority, cost, benefits and other merits of the proposed project be presented to the Management Committee before amendments to the agreement were implemented. In this case, however, such a review was pre-empted by ministers who presented the matter as a "*fait accompli*" to officials who, in the circumstances, could only implement the decision.

**27.42** The agreement, as currently worded, clearly indicates that projects funded under the agreement were intended to be projects that were part of the National Highway System in Nova Scotia. Our review of the agreement makes it clear that the ministers jointly had the capacity to amend the relevant parts of the agreement and Schedule A. The 17 February 1994 direction to Transport Canada, and the various public statements made since by both ministers, make it clear that they had the intent to amend the agreement insofar as was required to permit the funding of the Fleur-de-Lis Trail project. Accordingly, we have concluded that the action taken was within the authority of the federal Minister of Transport.

## Subsequent Event

**27.43 23 August 1995.** Nova Scotia's Minister of Transportation and Communications and the federal Minister of Public Works and Government Services together announced their recommendation to their governments to reverse the earlier amendment of the Nova Scotia SHIP agreement, to remove the \$26 million that had been allocated to the Fleur-de-Lis Trail and to restore it to the

Highway 104 project. Officials in Transport Canada have indicated that they are taking the steps required to make the necessary amendments to Schedule B of the agreement. They have also indicated

that the federal moneys paid to Nova Scotia under the agreement for work already done on the Trail will be recovered.



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# APPENDIX A

## R.S., c. A-17

An Act respecting the office of the Auditor  
General of Canada and matters related  
or incidental thereto

### SHORT TITLE

Short title                    1.            This Act may be cited as the *Auditor General Act*. 1976-77, c. 34, s.1.

### INTERPRETATION

Definitions                    2.            In this Act,

Auditor General            “Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);

Crown corporation            “Crown corporation” has the meaning assigned to that expression by section 83 of the *Financial Administration Act*;

Department                    “department” has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

Registrar                    “registrar” means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*. 1976-77, c. 34, s.2, 1984, c. 31, s.14.

### AUDITOR GENERAL OF CANADA

Appointment and tenure of office            3.            (1)            The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem                            (2)            Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment                (3)            Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy                        (4)            In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s.3.

Salary                            4.            (1)            The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits                (2)            The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special)*

*Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976-77, c. 34, s.4; 1980-81-82-83, c. 50 s.23, c. 55, s.1.

## DUTIES

- |  |   |
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| Examination  | <p>5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976-77, c. 34, s.5.</p>  |
| Idem   | <p>6. The Auditor General shall examine the several financial statements required by section 64 of the <i>Financial Administration Act</i> to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976-77, c. 34, s. 6; 1980-81-82-83, c. 170, s. 25.</p>   |
| Annual and additional reports to the House of Commons                      | <p>7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1), not more than three additional reports in any year to the House of Commons</p> <p>(a) on the work of his office; and,</p> <p>(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.</p>   |
| Idem   | <p>(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that</p> <p>(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;</p> <p>(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;</p> <p>(c) money has been expended other than for purposes for which it was appropriated by Parliament;</p> <p>(d) money has been expended without due regard to economy or efficiency; or</p> <p>(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.</p> |
| Submission of annual report to Speaker and tabling in the House of Commons | <p>(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then in sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.</p>  |

Notice of additional reports to Speaker and tabling in the House of Commons	(4) Where the Auditor General proposed to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.
Submission of additional reports to Speaker and tabling in the House of Commons	(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it. 1976–77, c. 34, s. 7; 1994, c.32, s.1 and 2.
Special report to the House of Commons	8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).
Submission of reports to Speaker and tabling in the House of Commons	(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976–77, c. 34, s.8; 1994, c.32, s.3.
Idem	9. The Auditor General shall <p>(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and;</p> <p>(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the <i>Financial Administration Act</i>;</p> <p>and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976–77, c. 34, s.9.</p>
Improper retention of public money	10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976–77, c. 34, s.10.
Inquiry and report	11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976–77, c. 34, s.11.
Advisory powers	12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976–77, c. 34, s.12.



## ACCESS TO INFORMATION

Access to information	13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.
Stationing of officers in departments	(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.
Oath of secrecy	(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.
Inquiries	(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the <i>Inquiries Act</i> . 1976-77, c. 34, s.13.
Reliance on audit reports of Crown corporations	14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.
Auditor General may request information	(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.
Direction of the Governor in Council	(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976-77, c. 34, s.14.

## STAFF OF THE AUDITOR GENERAL

Officers, etc.	15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the <i>Public Service Employment Act</i> .
Contract for professional services	(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.
Delegation to Auditor General	(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and



functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under section 21 of that Act and inquiries under section 34 of that Act.

Suspension	(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976–77, c. 34, s.15; 1992, c.54, s.79.
Responsibility for personnel management	16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the <i>Financial Administration Act</i> that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 7(1)(e) and sections 11 to 13 of that Act. 1976–77, c. 34, s.16.
Classification standards	17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976–77, c. 34, s.18.
Delegation	18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the <i>Financial Administration Act</i> and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976–77, c. 34, s.19.

## ESTIMATES

Estimates	19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.
Special report	(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976–77, c. 34, s.20.
Appropriation allotments	20. The provisions of the <i>Financial Administration Act</i> with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976–77, c. 34, s.21.

## AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of the office of the Auditor General	21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.
Submission of reports and tabling	(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976–77, c. 34, s.22.



# APPENDIX B

## FINANCIAL ADMINISTRATION ACT

R.S., c. F-11

### Extracts from Part X

### CROWN CORPORATIONS

#### Financial Management

Books and  
systems

131. (1) Each parent Crown corporation shall cause
- (a) books of account and records in relation thereto to be kept, and
- (b) financial and management control and information systems and management practices to be maintained,
- in respect of itself and each of its wholly-owned subsidiaries, if any.

Idem

- (2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that
- (a) the assets of the corporation and each subsidiary are safeguarded and controlled;
- (b) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and
- (c) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

- (3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the benefits to be derived from those audits do not justify their cost.

Financial  
statements

- (4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6) if any.

Form of financial  
statements

- (5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

- (6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in

respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1991, c. 24, s. 41.

### Auditor's Reports

Annual auditor's report	<p>132. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on</p>
	<p>(a) the financial statements referred to in section 131 and any revised financial statement referred to in subsection 133(3); and</p>
	<p>(b) any quantitative information required to be audited pursuant to subsection (5).</p>
Contents	<p>(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall</p>
	<p>(a) include separate statements, whether in the auditor's opinion,</p>
	<p>(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,</p>
	<p>(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and</p>
	<p>(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of the auditor's examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and</p>
	<p>(b) call attention to any other matter falling within the scope of the auditor's examination for the report that, in his opinion, should be brought to the attention of Parliament.</p>
Regulations	<p>(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.</p>
Separate reports	<p>(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph (1)(a) and on the information referred to in paragraph (1)(b) if, in the auditor's opinion, separate reports would be more appropriate.</p>
Audit of quantitative information	<p>(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 150(3) be audited.</p>
Other reports	<p>(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.</p>
Examination	<p>(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).</p>



Reliance on internal audit	(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 131(3). 1991, c. 24, s. 42.
Errors and omissions	133. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 132.
Idem	(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 132, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.
Correction	(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

### Auditors

Appointment of auditor	134. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.
Auditor General	(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III, unless the Auditor General waives the requirement that he be so appointed.
Idem	(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and section 135 does not apply to him.
Exception	(4) Notwithstanding subsection (1), where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and sections 135 to 137 apply in respect of that auditor as though the references therein to a parent Crown corporation were references to the subsidiary.
Criteria for appointment	(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).
Re-appointment	(6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office	(7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed. 1984, c.31, s.11.
Persons not eligible	135. (1) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation pursuant to section 134 if that person is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.
Independence	(2) For the purpose of this section,  (a) independence is a question of fact; and  (b) a person is deemed not to be independent if that person or any of his business partners  (i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,  (ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or  (iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.
Resignation	(3) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification. 1984, c.31, s.11.
Qualifications preserved	136. Nothing in sections 134 and 135 shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.
Resignation	137. A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from the auditor or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.
<b>Special Examination</b>	
Special examination	138. (1) Each parent Crown corporation shall cause a special examination to be carried out in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 131(1)(b) were, in the period under examination, maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 131(2)(a) and (c).
Time for examination	(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan	(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.
Resolution of disagreements	(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation with respect to a plan referred to in subsection (3) may be resolved <p>(a) in the case of a parent Crown corporation, by the appropriate Minister; and</p> <p>(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.</p>
Reliance on internal audit	(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 131(3). 1984, c.31, s.11.
Report	139. (1) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.
Contents	(2) The report of an examiner under subsection (1) shall include <p>(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection 138(3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and</p> <p>(b) a statement of the extent to which the examiner relied on internal audits. 1984, c.31, s.11.</p>
Special report of appropriate Minister	140. Where the examiner of a parent Crown corporation, or a wholly owned subsidiary of a parent Crown corporation, named in Part I of Schedule III is of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, or with the board of the subsidiary and corporation, as the case may be, report that information to the Minister and furnish the board or boards with a copy of the report. 1984, c.31, s.11.
Special report to Parliament	141. Where the examiner of a parent Crown corporation, or a wholly-owned subsidiary of a parent Crown corporation, named in Part I of Schedule III of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, or with the boards of the subsidiary and corporation, as the case may be, prepare a report thereon for inclusion in the next annual report of the corporation and furnish the board or boards, the appropriate Minister and the Auditor General of Canada with copies of the report. 1984, c.31, s.11.
Examiner	142. (1) Subject to subsections (2) and (3), a special examination referred to in section 138 shall be carried out by the auditor of a parent Crown corporation.
Idem	(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, the Governor in Council may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the



auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

**Exception** (3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

**Applicable provisions** (4) Subject to subsection (5), sections 135 and 137 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

**Auditor General eligible** (5) The Auditor General of Canada is eligible to be appointed an examiner and section 135 does not apply to the Auditor General of Canada in respect of such an appointment. 1984, c. 31, s. 11.

### Consultation with Auditor General

**Consultation with Auditor General** 143. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 132(2)(b) or section 141. 1984, c. 31, s. 11.

### Right to Information

**Right to Information** 144. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries

as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

**Idem** (2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the auditor or examiner with the information and explanations so obtained.

**Reliance on reports** (3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.



### Policy

- Restriction** 145. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of
- (a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;
  - (b) the objectives of the corporation; and
  - (c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

### Qualified Privilege

- Qualified privilege** 146. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation or a wholly-owned subsidiary has qualified privilege. 1991, c. 24, s. 43.

### Costs

- Cost of audit and examination** 147. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 132, 139, 140 or 141 shall be reported to the President of the Treasury Board.
- Idem** (2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 132, 139, 140 or 141 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

### Audit Committee

- Audit committee** 148. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.
- Idem** (2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.
- Duties** (3) The audit committee of a parent Crown corporation shall
- (a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;
  - (b) oversee any internal audit of the corporation that is conducted pursuant to subsection 131(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 132(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in sections 138 to 141; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor's or  
examiner's  
attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned  
subsidiary

(6) Where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references in subsections (1) to (5) to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)(a) to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

### Reports

Accounts, etc. to  
Treasury Board or  
appropriate  
Minister

149. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on  
material  
developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on  
wholly-owned  
subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee	(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the businesses and activities of the corporation submitting the report.
Form and contents	<p>(3) The annual report of a parent Crown corporation shall include</p> <p>(a) the financial statements of the corporation referred to in section 131,</p> <p>(b) the annual auditor's report referred to in subsection 132(1),</p> <p>(c) a statement on the extent to which the corporation has met its objectives for the financial year,</p> <p>(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report, and</p> <p>(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included in the annual report,</p> <p>and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.</p>
Idem	(4) In addition to any other requirements under this Act or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1991, c. 24, s. 49.
Annual consolidated report	151. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.
Reference to committee	(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.
Contents	<p>(3) The annual consolidated report referred to in subsection (1) shall include</p> <p>(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;</p> <p>(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and</p> <p>(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.</p>
Annual report	152. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause to be laid before each House of Parliament a copy of a report indicating the

summaries and annual reports that under this Part were to be laid before that House by July 31 in that year, the time at, before or within which they were to be laid and the time they were laid before that House.

Attest

(2) The accuracy of the information contained in the report referred to in subsection (1) shall be attested by the Auditor General of Canada in the Auditor General's report to the House of Commons. 1991, c. 24, s. 44.



# **APPENDIX C**

## **REPORT TO THE HOUSE**

**Wednesday, November 30, 1994**

### **The Standing Committee on Public Accounts has the honour to present its**

### **SIXTH REPORT**

Pursuant to Standing Order 108(3)(d), your Committee has studied chapters 8, 9 and 10 (Program Evaluation) of the Auditor General's 1993 Annual Report.

#### **Introduction**

Your Committee's interest in program evaluation is not new. In November 1991, it held meetings to look into the disbanding of the Finance Department's Tax Measures Evaluation Division. In its report, the Committee voiced concern that the decision to disband the Division would put at risk the independence of evaluations of tax measures and the objectivity of the reporting. In April 1992, the Committee decided to pursue the matter by asking the Auditor General to examine the Finance Department's new process for evaluating tax measures. The Auditor General concluded that the new evaluations were being done independently and in accordance with the rules.

Your Committee remains as convinced as ever of the importance of program evaluation. Program evaluation, when conducted properly, will generate substantial benefits for government, and more importantly, for the taxpayer. These benefits include helping Canadians determine the value obtained for their tax dollars, determining whether programs fulfil their objectives, enabling public servants to take responsibility for results instead of process, and aiding the decisions that must be made about the resource allocations needed to control the deficit. In particular, the Committee considers that program evaluation can be an invaluable instrument in examining government expenditures. It therefore devoted two meetings to this matter, with a view to determining how the main players were carrying out their responsibilities in this regard. In particular your Committee wished to determine how the Office of the Comptroller General (now merged with the Treasury Board Secretariat) is carrying out its duties as a central agency with respect to program evaluation.

#### **Background**

In his 1993 Annual Report, the Auditor General assessed the evolution of program evaluation within the federal government since the previous general audit in 1983. His observations were not encouraging. Although the basic structures are in place as required by the established policy, the use made of them is another story. Evaluations done by departments frequently examine smaller program units and address administrative concerns alone; they do nothing to challenge the existence of a program or evaluate its cost-effectiveness. The focus on small units has meant that many large-expenditure programs—an area where the potential for urgently needed savings is highest—are not evaluated. All too often, the evaluations that are done are neither timely nor relevant. Thus, program evaluation is under-utilized, and there are serious shortcomings in both the scope and the quality of the evaluations. With respect to the Comptroller General, the Auditor General concluded that he had not fulfilled his mandate to audit performance quality and report on government-wide performance both internally and externally.

#### **Role of the Treasury Board Secretariat (Office of the Comptroller General) with Respect to Program Evaluation**

The federal government's first program evaluation policy dates back to 1977. At that time Treasury Board called for the creation of an evaluation mechanism and the introduction of cyclical evaluations for all programs. The departments were expected to evaluate their own programs. In 1978, the Office of the Comptroller General was

created and given central responsibility for the evaluation function. Today's structure remains very similar to the one set up in 1978. However, since 1991 Treasury Board has called for the targeting of priority sectors where the need for information on program results is so vital that it justifies the cost of an evaluation.

In June 1993, the functions of the Office of the Comptroller General were integrated into those of the Treasury Board Secretariat. When he appeared before your Committee for the first time, on 1 June 1994, the Treasury Board Secretary and Comptroller General of Canada, Mr. Robert Giroux, tabled a new review policy covering all review activities, including program evaluation and auditing. Under this policy the Treasury Board Secretariat is responsible for: (a) providing leadership in the area of performance review and (b) reviewing key policies, programs and activities throughout the whole government structure. The new Government Review and Quality Services Division combines evaluation and audit professionals with the Administrative Policy Branch's quality services team.

### **Definition of Responsibilities**

At the meeting of 1 June, the Treasury Board Secretary said that the aim of his policy was to bring together program evaluation activities, audit activities and the many reviews that have always been carried out in the departments. Mr. Giroux also spoke of the 15 reviews announced in the 1994 Budget, such as the reviews of the GST and of social programs, which account for the majority of government expenditures.

Although such reviews are certainly very useful, your Committee considers it important to bear in mind that they cannot replace program evaluation entirely. Reviews are more political in nature, and more ad hoc. As the Auditor General pointed out at the 1 June meeting, reviews are never as rigorous or as objective as program evaluations (13:31). Program evaluation can provide the information needed to make future choices, whether these entail cutting expenditures or rethinking the way something is done. It can determine whether a program is relevant and responds to the objectives set at the start. Your Committee therefore considers that the Treasury Board Secretariat should be ready to provide the decision-makers with tools such as program evaluation, to help in answering the questions raised in reviews.

During its two meetings on program evaluation, your Committee tried to determine how the Treasury Board Secretariat's new policy would enable it to perform its leadership role more adequately. It would seem that the Secretariat has always had the right to exercise a certain authority over the departments, but that it has not done so. Accordingly, your Committee does not see this as a policy matter but rather as a question of the Secretariat's willingness. It should not only inform the departments of issues involving the government as a whole or the Cabinet, as the new policy states, it should also make sure that evaluations are in fact carried out.

Your Committee is pleased that the Secretariat intends to ask the departments, as part of the budget process, what their evaluation plans are for the next two years, and to encourage them to include the evaluations that the Secretariat considers essential if the plans are to be approved by Treasury Board. As Mr. Giroux said at the meeting of 6 October, "we are telling you that we are now in the process of implementing the policy, and we are saying that we will tie it very closely to the resourcing process, that is, when departments come in to obtain their budgets, we will ask them what evaluations they have done and what evaluations they're planning to do" (17:30). However, your Committee wants to know who exactly within the Secretariat will undertake these important responsibilities. Your Committee wishes to be sure that the persons responsible have the authority to intervene and to influence the content of evaluation plans if necessary. Your Committee therefore recommends:

That the Treasury Board Secretariat define in detail the approval process for evaluation plans, spelling out the role and responsibilities of each of the parties involved, both generally and with specific reference to cases where a departmental evaluation plan does not correspond fully to the priorities set by the Secretariat.

To counter a tendency on the part of departments to focus on programs that do not involve large amounts of money, the Secretariat has decided that it should have greater influence in the carrying out of evaluations, especially



in cases where a program involves more than one department. The Secretariat submitted a work plan to your Committee on 1 June listing evaluations that in the Secretariat's opinion can be carried out only by Treasury Board (via its Government Review and Quality Services Division).

Your Committee supports this initiative because it seems likely that it will make it possible to look at more of the government's expenditures. However, multi-departmental programs are not the only ones involving large expenditures. The Secretariat has apparently no direct role in the evaluation of the Finance Department's debt program, which involves expenditure of over \$40 billion a year. In such cases your Committee wonders what the Secretariat's criteria are for intervening and having its Government Review and Quality Services Division carry out a study, or deciding to allocate additional financial and human resources to the department doing an evaluation. To facilitate evaluation of these large-expenditure programs, your Committee recommends:

That the Treasury Board Secretariat define criteria that will enable it to establish in what circumstances evaluations of large-expenditure programs will come under the Secretariat's control and when under that of the department. The Secretariat should also determine who has responsibility for making decisions in this area.

Conducted properly, program evaluations will produce benefits that are substantial. In particular, witnesses drew the Committee's attention to the savings that can be generated when programs are adjusted or cancelled in response to negative evaluation. Accordingly, the Committee is convinced that proper program evaluation can make a valuable contribution towards reducing the deficit. However, if program evaluations are to be of use in this respect, they must be completed in a timely fashion: lack of sufficient resources should not be a cause for postponement. Given the importance of such evaluations from the standpoint of the savings they are capable of generating, your Committee recommends:

That in cases where evaluations cannot be carried out within reasonable deadlines because of technical or other difficulties, the Secretariat consider allocating additional funding.

In making this recommendation, the Committee is confident that allocation of additional funding will not involve new spending; funds for this purpose must come from within existing budgets. In addition, the Committee wants to stress that when the Secretariat considers additional funding, thought should be given to the potential savings flowing from program evaluation, savings that may cover—and even exceed—the cost of conducting an evaluation in the first place.

A progress report on the activities of the Government Review and Quality Services Division was submitted to your Committee at its meeting of 6 October 1994. The Committee is interested in the Division's work and wishes to follow its activities closely. Your Committee therefore recommends:

That the Treasury Board Secretariat send the Committee a semi-annual progress report on the activities of the Government Review and Quality Services Division. The report should indicate the extent to which objectives have been achieved for each project initiated by the Division.

## **Evaluation Plans**

Given that the Secretariat will be discussing the departments' evaluation plans with them every year in any case, your Committee sees no reason why the Secretariat could not bring the plans together in a single document that would be submitted to your Committee once the plans had been approved. Your Committee recognizes that such plans can change somewhat over time and are not carved in stone. As the Treasury Board Secretary remarked, an annual review of these plans will make them both more realistic and more relevant. However, your Committee considers that the plans must retain a certain continuity if benchmarks are to be established for judging the extent to which the departments have met their objectives. In addition, your Committee feels that the Secretariat should put its good intentions into practice as soon as possible. Your Committee therefore recommends:

That the Treasury Board Secretariat submit to the Committee, by October 1995, the first evaluation plan approved for the government as a whole. This plan should cover a three-year period and should contain, for each program to be evaluated: the name of the department(s) involved in the evaluation (with the lead department identified), its budget and its share of the total budget, the deadlines for the main stages of the evaluation and the anticipated resources required. The plan should also indicate the criteria used for the selection of priorities. The Committee will then expect to receive this government-wide evaluation plan every year as soon as it has been approved by Treasury Board.

### **Annual Performance Report on Evaluation Practices**

Your Committee is convinced of the need to publish an annual performance report on program evaluation. The preparation of such a report by the Treasury Board Secretariat would complete the process started with the publication of an evaluation plan. In a letter dated 29 August 1994, and during the Committee meeting of 6 October, the Treasury Board Secretary expressed his intention of producing an annual report on the implementation of the policies and the results obtained. The first report should be out by September–October 1995. However, Mr. Giroux said that the focus would be on results rather than on the plans themselves. Your Committee considers that a given department's ability to produce certain evaluations must be known in order to determine the extent to which the results are satisfactory, and this is what the plan makes possible. Your Committee therefore recommends:

That the Treasury Board Secretariat produce a report on the departments' evaluation performance no later than October 31, 1995, and annually thereafter. This report should specify: what percentage of each of the programs has been evaluated; whether the programs have been evaluated from the standpoint of relevance as well as of achievement of objectives and cost effectiveness; who made use of the evaluation studies; the studies' timeliness; the savings that the studies made it possible to achieve; and the proportion of government expenditure covered by the studies. The report should be linked to the evaluation plan requested by the Committee: in it the Secretariat should explain the reasons for any discrepancies between the plan and the performance.

### **Evaluation Plan for New Programs**

One of the Secretariat's functions should be to see to it that new programs are evaluated in the same way as existing programs. If measurable objectives and performance indicators are defined for the program from its inception, it is easier to define and collect the data needed for a successful evaluation. The evaluation framework makes this possible. In the 1994 Budget, the government announced that an evaluation framework was being set up for the National Infrastructure Program and the Atlantic Groundfish Strategy. The Committee encourages that procedure and hopes it could be applicable on a larger scale. Your Committee therefore recommends:

That the Treasury Board Secretariat require an evaluation plan whenever a new program is approved by Treasury Board.

### **Conclusion**

In the course of the two meetings devoted to program evaluation, your Committee sensed a genuine desire on the part of the Treasury Board Secretariat to improve the program evaluation function. When your Committee asked Mr. Paton, Deputy Secretary of the Administrative Policy Branch, if he could ensure that program evaluation would be improving dramatically in the next few years, his answer was a short but eloquent "Yes".

Your Committee wishes to ensure that the Treasury Board Secretariat implement its new policy, and the commitments it has made to your Committee, as promptly as possible. Above all, your Committee wants the Secretariat to follow up on the recommendations in this Report. The Office of the Auditor General expects to be looking at the program evaluation function again in December 1995 when it does its customary follow-up. Your Committee therefore recommends that, at the same time:



The Office of the Auditor General examine the extent to which the Treasury Board Secretariat has complied with the Committee's recommendations and lived up to the commitments made in the course of the two meetings with the Committee on this matter. The Office should report its observations and recommendations in its 1995 annual report or in a subsequent report no later than the spring of 1996.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings and Evidence (Issues N<sup>os</sup>. 11, 13, 17, 21 and 22 which includes this Report) is tabled.

Respectfully submitted,

Richard Bélisle

Chairman

## REPORT TO THE HOUSE

Friday, February 10, 1995

The Standing Committee on Public Accounts has the honour to present its

### SEVENTH REPORT

Pursuant to Standing Order 108(3)(d), your Committee has studied chapter 3 of the Auditor General's 1993 Report. (Other Audit Observations—Observations on Tax Revenue—Resource Allowance (paragraph 3.64)).

#### Introduction

The Committee devoted special attention to this chapter of the Auditor General's report because of the large amounts of government revenue at stake. Accordingly, the Committee held two meetings with officials from the Departments of Finance, National Revenue and Justice, on this subject on 20 April 1994 and 25 October 1994. A subsequent meeting was held with Treasury Board officials on 1 November 1994 on the subject of risk management in government. On 13 December 1994, a fourth meeting was held with the Minister of National Revenue, the Hononourable David Anderson, and officials from his department.

#### Background

In 1975, an amendment to the Income Tax Act made provincial royalties non-deductible for the purpose of determining taxable income. In partial compensation for this change, a tax abatement was introduced on the basis of resource profit. These changes to the Act became effective as of 7 May 1974.

For its 1974 and 1975 income tax years, one taxpayer—Gulf Oil—deducted the cost of scientific research investments and certain other capital cost allowances when calculating its income for income tax purposes. However, it added back these costs when it calculated its profit for purposes of the abatement. This method was contrary to the government's interpretation of the measure and had the effect of reducing Gulf's income tax more than the government had intended.

The Department of National Revenue reassessed Gulf's 1974 and 1975 taxation years returns in 1979 and 1980 respectively. These reassessments were challenged by Gulf and the issue ended up before the courts.

In 1990, the Federal Court (Trials Division) ruled in Gulf's favour. The government appealed the ruling and lost (in 1992). It subsequently appealed to the Supreme Court of Canada; leave to appeal was denied (again, in 1992). Shortly afterward, in July 1992, the Department of Finance issued a proposed amendment to clarify the law. This proposed amendment will take effect from the date that it was announced; however, it is still under review and is not yet in force.

As a consequence of the court rulings, 40 other resource companies have claimed refunds based on their income tax returns dating back to 1974. Furthermore, the court rulings have expanded the kinds of costs that can be added back when calculating income tax abatements. The government has conceded recently that general and administrative expenses can be factored in to a calculation of the abatement. However, as of October 1994, negotiations between resource companies in question and the government were still in progress. As a result, no refunds had been paid out and the interest on the outstanding amount continued to accumulate.

The costs in terms of loss of revenue and interest are enormous. As of 30 September 1994, the estimated total refund stood at \$1.2138 billion. This amount was comprised of \$456 million in taxes that will have to be

refunded; the remainder—the largest portion—is made up of interest on that amount. While the issue awaited resolution, interest charges continued to accumulate daily. Between 1 July 1994 and 30 September 1994, \$24.2 million in interest was accumulated, a rate of approximately \$266,000 per day. The final total refund may amount to as much as \$2 billion.

During the hearings this Committee held on this chapter of the Auditor General's report, none of our witnesses contested the basic facts of what has come to be known as the "Gulf case" as outlined above. The witnesses did differ, however, on whether or not the Gulf case had been handled appropriately.

In his report and testimony before the Committee, the Auditor General indicated that the departments of Finance, National Revenue and Justice had failed to take adequate measures to protect the interests of taxpayers. Instead of determining, at an early stage, the amount of tax revenues potentially at stake, the departments neglected to do this until just before they requested leave to appeal to the Supreme Court. The possibility that court rulings would open up additional costs that could be added to the calculation of the tax abatement was also not taken into consideration. As a consequence of the absence of a timely assessment of risk, no action was taken to reduce or contain that risk. Instead, the case was permitted to proceed slowly through the courts until a judgement was handed down—ten years after the problem first surfaced.

The Departments defended their actions by claiming that they had been given legal advice that their chances of winning the case were solid. Past evidence, they claimed, confirms that they were correct in accepting this assessment: the government, they pointed out, has won approximately 73% of the tax cases it has litigated. When lower courts ruled against them in the Gulf case, the departments argued that the only option open to them was to appeal the judgement. Once leave to appeal was denied by the Supreme Court, quick action was taken to amend the law.

The decision that was made to litigate in the Gulf case was based on an assumption that the government was going to win. At no time was the possibility of a defeat—along with potentially disastrous consequences in terms of loss of revenue—entertained seriously by any of the departments until it was too late. The departments have admitted as much to the Committee. The assumption that victory was certain may lead eventually to a loss referral of \$2 billion.

While the departments may be correct in stating that they had no other recourse but to appeal their loss in the lower court, the Committee is deeply concerned about the failure to take remedial steps prior to that stage in the case. Clearly, complacency and faulty decision-making came at an enormously high price to Canadian taxpayers and their government.

### **Preventing Another Gulf Case:**

#### **Proper Risk Assessment and Management**

From testimony given to the Committee, it appears that some steps have been taken that are intended to avert a repetition of a case similar to Gulf. In particular, the Committee notes that a process is now in place to identify disputes over interpretation of income tax law that pose significant risks to the tax base. Other measures have been implemented to make sure that disputes are processed through the court system in a much more timely fashion. Finally, proposed changes to the income tax objections and appeals process will require large corporations to specify the issue(s) in dispute in notices of objection and give estimates of the amount of tax relief sought. Taxpayers will no longer be permitted to benefit from the success achieved by another taxpayer in court, simply because they have objections or appeals outstanding that have not raised the same issue. This measure should limit the government's exposure to risk considerably. The changes which require amendments to the Income Tax Act should be included in legislation to be tabled by the Minister of Finance before the next budget. Collectively, these changes should help Revenue Canada determine the amount of tax revenue at risk. The Committee agrees with the Minister of National Revenue's conclusion that these changes represent a significant improvement.



Nevertheless, the Committee believes that more needs to be done before Canadian taxpayers can be fully assured that risks to the tax base are being managed promptly and with due diligence. Although the departments state that they now have a process in place to manage risk to the tax base, they admit that it is an informal one only. Because it is informal, this process does not force any one in particular to assume responsibility for its operation or for the decisions that it produces.

It is clear to this Committee that without a formal risk management process in place, failure to protect the tax base will almost certainly occur again. With no formal process in place, it is impossible to assign responsibility for the decisions that are taken. Indeed, the Committee had considerable difficulty in determining who should be held to account for the outcome of the Gulf case. The Committee discovered, as well, that no one had been reprimanded as a consequence of the Gulf case. In the absence of a formal process it is impossible to impose accountability that is meaningful. Therefore, a formal process must, among other things, designate who is responsible for taking final decisions and at what stage. The Committee concludes, therefore, that the process for managing risk to the tax base must be made formal and be composed of rules that are unambiguous. Accordingly, we recommend that

The Departments of Finance, Justice and National Revenue establish a formal process for managing risk to the tax base. This process should state what should be done and when, and who should be responsible for the decisions that are taken.

During his appearance before the Committee, the Minister of National Revenue indicated that certain steps in this direction will be taken. He stated, for example, that the roles and responsibilities of the appropriate decisionmakers will be assigned for each step in the process. In addition, he told the Committee that a Risk Management Model will be developed for the objections and appeals process to guide decisionmakers in evaluating risk. Because we are anxious that the departments take steps to implement these plans immediately, we are recommending that

The departments submit their formal process for managing risk and their Risk Management Model to this Committee for examination within six months.

Although it is evident that the departments are at least conducting some form of informal risk management, it was by no means clear to the Committee the stage at which this process is implemented. A letter sent the Committee by the Assistant Deputy Minister of Finance (Tax Policy Branch), Mr. Kevin Dancey, implied that risk assessment only takes place at a later stage. Mr. Dancey wrote that

All adverse Court decisions that are being considered for appeal to a higher level of Court are discussed at [Revenue Canada's internal Policy Sub-Committee on Finance Legislation and Issues]. The views of the Departments of Justice and Finance are obtained to assist the sub-committee in assessing the risk to the tax base and in deciding between alternative courses of action.

During his testimony before the Committee, the Minister of National Revenue repeated this statement; in response to questioning, he indicated that risk management was actually taking place at an earlier stage. Concrete assurances that management of risk is timely are required. Greater certainty is also needed regarding other components of risk management. As well, consideration must be given to the alternatives to litigation. In short, the Committee wants absolute assurance that the risk management process established by the departments is a proper one. The Committee therefore recommends that

Risk analysis should be done at an early stage and should include an assessment of the revenue and other costs involved, an assessment of the impact on the integrity of the tax system, and if chances of winning are doubtful, consideration of other courses of action.



One of the steps being taken by the departments to manage risk caught the Committee's attention. The head office of National Revenue's Appeals Branch now maintains a list of important issues and test cases. This list is prepared quarterly and is reviewed and discussed by the Departments of Revenue, Finance, and Justice. The Committee was assured that had this system been in place, the departments would have been alerted to the gravity of the Gulf case much sooner.

Of the 130 cases currently on this list, 30 are being dealt with on a priority basis. Mr. Ian MacGregor, Acting Assistant Attorney General, Tax Law, of the Department of Justice informed the Committee that priority status is assigned to certain cases on the list because they involve principles of law, because there are a lot of cases that are pending on the outcome of those particular cases, and because of the high dollar amounts [involved],... [page 18:22]

However, when asked by the Committee whether or not there is a threshold amount that would confer priority status to a given case, Mr. MacGregor indicated that there is none. He acknowledged that it would be useful to have a formula in place that would determine when a case should be given priority status and agreed to provide one for the Committee. The Committee wishes to ensure that the Departments take this vital step. Accordingly, we recommend that

The Departments of Justice and National Revenue develop a formula that will be used to assign priority status to cases on the list of important issues and test cases that is maintained.

The Committee furthermore recommends that

The formula for assigning priority status to cases on the list be submitted to this Committee within 90 days of the issuing of this report.

It is not sufficient simply to assess risk to the tax base along the lines we have recommended: once an assessment has been done, decisive action is called for.

It may be appropriate, once all factors have been weighed carefully, to proceed with litigation. However, the Committee has serious reservations that this method be regarded as the only means of resolving disputes between the government and taxpayers. Litigation in itself may be risky, as well as lengthy and costly, in that it may open—rather than close—government's exposure to risk. These dangers were clearly demonstrated by the Gulf case.

When an assessment determines that potential risk is high and the likelihood of litigation producing a satisfactory resolution doubtful, other courses of action must be considered. Although there was an objections and appeals process that took place prior to the Gulf case litigation, we are anxious that the opportunity for resolution be exploited in other ways. Accordingly, the Committee recommends that

All options for resolving disputes over interpretation of tax law be examined before litigation is commenced.

Should efforts to resolve disputes fail, there is one other mechanism that can be used as an alternative to litigation. This mechanism consists of making retroactive amendments to sections of legislation under dispute. In the Gulf case, it was clear to the government as early as 1979 that the sections of the Income Tax Act dealing with the resource allowance rebate presented a problem. At that stage, steps could have been taken to amend those sections of the Act on a retroactive basis.

The Department of Finance argues that it would be inappropriate to introduce tightening changes to the law on a retroactive basis. However, it was brought to the Committee's attention that the department has made changes of this sort in the past. On 30 April 1993, retroactive legislation (to 1 January 1991) was introduced to clarify GST

provisions relating to input tax credits. In announcing this amendment, the government indicated that the amendments reflected a “long-standing policy intent in this area that is well understood by businesses and their advisors.” The circumstances surrounding the Gulf case are similar. As the Department of National Revenue stated in its reply to the Auditor General’s findings, “most of the resource industry had been filing their income tax returns in a manner consistent with the Department’s interpretation of the law.” Thus, a retroactive amendment would have reflected government’s intent and been in accord with the way the resource sector was already interpreting the law.

The Department of Finance also argued that it would have been inadvisable to introduce clarifying amendments to the Income Tax Act before the termination of the Gulf case: such a move might have prejudiced the government’s appeal. Although this assertion appears to make sense, the Committee makes two observations. The first is that this argument does not rule out the possibility of making a change to the law before an appeals stage is reached. Secondly, it has come to our attention that the government has previously amended sections of the law under litigation. Thus, this is a means of risk management that should be actively considered.

The Committee makes these observations in order to assert that government is not without options when it manages risk to the tax base. The difficulty, from the Committee’s perspective, is that there are no apparent criteria that establish when these steps can and should be taken. It is imperative that such criteria be developed. Therefore the Committee recommends that

The Department of Finance develop the criteria it will use to determine when it is appropriate to introduce clarifying changes to the law on a retroactive basis.

The Department of Finance develop the set of criteria it will use to determine when it is appropriate to clarify legislation prior to the conclusion of litigation.

Because this Committee is anxious that the Department of Finance proceed to develop and implement the criteria as soon as possible, we also recommend that

The Department of Finance submit its criteria for amending legislation retroactively to this Committee for examination within 90 days of the issuing of this report.

### **Risk Management and Assessment Across Government**

Apart from this specific case, the Committee is concerned about the assessment of risk and risk management across government generally. As a consequence of this concern, the Committee devoted its meeting on 1 November 1994 to this issue.

At this meeting, we learned that there is a Treasury Board policy in place that requires departments to conduct risk analyses of their programs and services. This policy has been in operation since 1991.

During earlier meetings with the Departments of Finance, Revenue, and Justice, it was not apparent that they were aware of the existence of this Treasury Board policy. None of our witnesses, for example, pointed to this policy as a guarantee that more effective steps are being taken now to avoid a recurrence of another Gulf case. It is this Committee’s view that in order that the Treasury Board policy on risk management play a role in minimizing risk, not only in cases like Gulf, but in all areas of government activity, it must be better communicated. The Committee therefore recommends that

Treasury Board take immediate steps to ensure that the government’s risk management policy is more effectively communicated to all departments and agencies of government and inform the Committee of its actions. In addition, Treasury Board should keep the Committee informed of any action it takes in this regard.

The Committee also learned that although Treasury Board has a risk management policy in place, departments have sole responsibility for implementing it. While this allows each department to adapt this policy to its own particular circumstances, there are drawbacks from the point of view of enforcement. If this policy is to work, it must be applied consistently and rigorously. This requires the active involvement of Treasury Board. Accordingly, the Committee recommends that

Treasury Board become more closely involved in ensuring that departments and agencies of government comply with the risk assessment policy.

## Conclusion

Steps have already been implemented to reinforce management of risks to the tax base. Much more remains to be done. The Committee is confident that if the measures it has recommended in this report are adopted by government and applied conscientiously by the departments, risk to the tax base will be managed more effectively. This should produce solutions to problems of interpretation of tax law that are timely and less costly.

One final matter requires mention. Following its first meeting on this chapter of the Auditor General's report, the Committee determined that it would be useful to obtain a summary of the legal opinions provided to the Department of National Revenue by the Department of Justice on the Gulf case. The Department of National Revenue, however, declined the Committee's request, citing solicitor-client privilege. During his appearance before the Committee, the Minister of National Revenue argued that the Committee should give careful consideration to the possible consequences before exercising its powers of asking for, and obtaining, a summary of the legal opinions. A motion asking that the Department of National Revenue provide the Committee with the legal advice it had been given was subsequently moved by René Laurin, Member of Parliament for Joliette, discussed, and then rejected by the Committee.

The Committee notes that in response to its inquiry, the Auditor General indicated that his Office had full access to the legal opinions provided to the Department of National Revenue on the Gulf case. Although he was not able to report on the content of these opinions, he stated that his investigation of the issue was not hindered in any way.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 6, 18, 19, 24 and 25 which includes this Report) is tabled.

Respectfully submitted,

Le président,

RICHARD BÉLISLE,

Chair.



## REPORTS TO THE HOUSE

Monday, May 8, 1995

The Standing Committee on Public Accounts has the honour to present its

### EIGHTH REPORT

Pursuant to Standing Order 108(3)(d), your Committee has studied chapters 29 (Collecting Income Tax Debts), 30 (Goods and Services Tax: Audit and Special Investigations) and 31 (Ensuring Fairness of the Tax System: Detection of Non-Filers and Special Investigations) of the 1994 Auditor General's Report.

#### Introduction

Following the tabling of the Auditor General's Report in November 1994, your Committee decided to begin its review with the chapters dealing with Revenue Canada and more specifically with the Department's collection, auditing and special investigation methods. Your Committee held two meetings on this subject with senior officials of Revenue Canada and the Office of the Auditor General of Canada, on February 14 and 21, 1995.

#### Background

Filing a tax return is central to the Canadian income tax system. Citizens are required by law to submit a statement of their income when they owe tax and in certain other specific circumstances. Businesses must file a return annually, without exception. Some 20 million taxpayers file a return every year.

Registered businesses are also required to collect the Goods and Services Tax (GST) from consumers on the government's behalf. Revenue Canada relies on them to calculate the tax payable, file their returns and pay the amounts owed on time. In 1994, more than 2 million businesses were GST-registered.

The collection system for both income tax and the GST depends on taxpayers' confidence in the system. Every Canadian must feel that he or she is paying a fair share and no more. In recent years, Canadians' confidence in the system seems to have declined. The problem of the underground economy has shown the government how urgently action is required to maintain the integrity of the tax base.

This is why the government must have effective programs that not only enable it to collect the moneys to which it is entitled but also ensure that the system remains fair. The Auditor General's observations in chapters 29, 30 and 31 of his 1994 Report show that Revenue Canada must step up its efforts if it wants to improve its ability to maintain that fairness.

It is true that Revenue Canada cannot choose its clientele, and must work within a framework of complex legislation. But your Committee considers that the department should constantly be seeking ways of overcoming these obstacles and improving its recovery audit and special investigations. Although the Department has undertaken a number of initiatives designed to increase efficiency, such as administrative integration of its Taxation and Customs and Excise components, much remains to be done.

#### Chapter 29

Most taxpayers pay the balance owing on their income tax when they file their return or upon receiving a notice of assessment. However, recovery measures must be taken in the case of unpaid balances on returns filed, deductions at source that have not been turned over and deliberate neglect to pay taxes owing.



In chapter 29 of his Report, the Auditor General (AG) focused on collection activities carried out by Revenue Canada Taxation. He found that in the past six years income tax debts have increased considerably, rising from \$4.2 billion in 1988–89 to \$6.6 billion in 1993–94.

Your Committee realizes that the state of the economy affects collection levels from one year to the next. Moreover, even when exceptional measures are taken, there will always be income tax debt. On the other hand, if the Department anticipates these variables and incorporates them into its long-term objectives, they can be more easily mitigated by stepping up other actions. The fact that over the past ten years the Department has virtually never met its debt-collection objectives is a sign that there is room for improvement in this area.

The four areas dealt with in chapter 29 were: (A) Overstatement of the realizable value of tax debts; (B) Collection procedures; (C) the Fairness Package; and (D) Information for parliamentarians.

#### **(A) Overstatement of the realizable value of tax debts**

It is important that the Department assess as accurately as possible the amounts owing that can actually be recovered, in order to provide a reliable forecast of the revenues the government can expect to receive. Because it did not take certain parameters into account, the Department tended to overestimate the realizable value of tax debts. According to the AG, the potentially recoverable amount at the time of his investigation lay somewhere between \$3.7 billion and \$5.1 billion, while the Department estimated it at \$5.5 billion.

At the meeting of February 14, 1995, the Department's representatives explained that up to now the realizable value had not allowed for reassessments made in response to information provided by taxpayers, which legitimately reduce accounts receivable by some 15–20 per cent every year. Allowing for these adjustments, the Department estimates that the revised realizable value of unpaid assessments would be \$4.5 billion. The Department started including this reassessment provision in Part III of its 1995–96 Estimates.

#### **(B) Collection procedures**

A sound knowledge of the Department's clientele is crucial to an efficient accounts collection system. The risk-scoring system is an essential tool in helping to maximize the effectiveness of the Department's actions. Among other things it enables collection officers to identify accounts where danger of loss is greatest and which offer the potential for collecting the largest amounts of money. Your Committee is not convinced that the existing system allows for effectual risk scoring of taxpayers' accounts. In a letter to your Committee dated March 14, 1995, the Deputy Minister indicated that Revenue Canada would be integrating other factors into its new system to make possible more accurate risk analysis. The integrated collection system will be operational in May 1995: it will allow a single collection officer to look after all accounts receivable owed by the same taxpayer.

The value of outstanding accounts is an important factor to consider since it greatly affects the cost-effectiveness of collection actions. Moreover, the likelihood of collecting an account decreases with the age of the debt. Your Committee would thus have expected the Department to be fast-tracking the collection of large debts. It is

true that the Income Tax Act prevents Revenue Canada from enforcing payment by the taxpayer prior to 90 days from the time the notice of assessment is issued. At the same time, your Committee considers that early systematic contact with the taxpayer enables the collection officer not only to assess danger of loss but also to negotiate payment arrangements. At the meeting, the Department's representatives told your Committee that it has set up a four-month pilot project of contacting delinquent taxpayers before the expiry of the 90 days. If the results are positive, the practice will be extended to all offices.

#### **(C) The Fairness Package**

Since 1991 the Act has given Revenue Canada the option of waiving all or a portion of interest and penalties for the 1985 and subsequent taxation years in cases where the taxpayer is unable to pay his or her debt

because of circumstances beyond his/her control. These provisions are known as the Fairness Package. Your Committee is concerned that the Department could not determine the total value of reassessments made under the Fairness Package since 1991. The Deputy Minister admitted at the meeting that the available information was so fragmentary and incomplete that it did not present an accurate picture of the situation. He promised the Committee “an annual report giving the cumulative total of all decisions made using the Fairness Package criteria, so that you will know exactly how much interest or penalties have been forgiven or adjusted in a given year. We could also tell you for what reason it has been done” (26:31). Your Committee expects that the Department will publish this information in the Public Accounts of Canada of 1995–96 as already required by the Financial Administration Act.

Your Committee is also very concerned that at the time of the AG’s investigation there were insufficient guidelines ensuring uniform application of the Package. Your Committee regards it as essential that equal treatment be given to taxpayers everywhere in Canada and that the Department monitor the way in which the Package’s provisions are applied. In its letter of March 14, 1995, the Department said that procedures designed to increase uniformity would be formulated by May 1995 and in effect no later than August 1995. In addition, an electronic system for following up on applications of the Fairness Package is to be implemented in stages over the course of 1995–96.

#### **(D) Information for Parliamentarians**

In order to improve the information provided to parliamentarians, your Committee recommends:

That Revenue Canada includes the following information in its Part III of the Main Estimates:

- 1) Total accounts receivable, broken down by type of account (individual, corporation and deductions at source), dollar range and percentage of total accounts receivable value. The following dollar range categories are proposed by your Committee: (a) less than \$1,000; (b) \$1,000 to \$9,999; (c) \$10,000 to \$49,999; (d) \$50,000 to \$249,999 and (e) greater than \$250,000.
- 2) A reference to the national objective which is to lower the accounts receivable to a specific percentage of gross revenues (e.g. to 4 p. cent over two years).

Your Committee recognizes that the Department has made a commitment to taking a number of steps over the coming year to respond to the AG’s recommendations, and we consider that the Department is on the right path. The Deputy Minister indicated at his meeting with us that it would take about a year for the various measures that had been announced to become operational. Your Committee wishes to ensure that these measures will in fact be implemented as planned. Your Committee therefore recommends:

That the Department report to the Committee in February 1996 on the progress made in responding to the observations in the AG’s Report and more specifically to the Committee’s concerns as expressed in this Report. In its progress report the Department should describe what the results of the thirteen measures mentioned in its Action Plan had been. It should determine the progress it has made in reaching its goal of having accounts receivable reduce to 4 per cent of total revenue within a period of two years.

## **Chapters 30 and 31**

In an ideal world, everyone would comply with the Income Tax Act: they would file returns, and collect and remit to the government the GST owed it, as required. Unfortunately this is not an ideal world. The government therefore has to set up programs to ensure compliance with the Act. What must be determined is whether the programs are effective in ensuring compliance and what means would increase their effectiveness.

As far as the GST is concerned, audits are one of the chief means of ensuring compliance with the law. On the one hand they generate additional tax assessments and increase GST revenues. On the other, they constitute a



significant deterrent: although not all registrants are audited, the possibility that they might be encourages them not to cheat. Special investigations are another, more focused, means of preventing tax evasion.

Your Committee recommends:

That the government look into the possibility of hiring additional personnel and/or improving the efficiency of the staff for its income tax and GST compliance and collections activities, given the rate of revenue recovery demonstrated by the Non-Filer Program.

In the area of income tax, the Non-Filer Program helps to ensure compliance with the Act by identifying taxpayers who have failed to file a return and securing that return. The Special Investigations Program sees to the application of the Act's provisions in cases where criminal charges must be laid.

The Department thus has a number of programs designed to ensure compliance with the Act. Your Committee is not convinced, however, that the Department's current compliance strategy is the most effective way of helping to prevent tax evasion and ensure fairness. For example, your Committee is concerned that at the time of the AG's investigation, almost 40 per cent of audits were resulting in no change at all to the assessment already established in 1993-94. The Department has taken steps to select returns for audit effectively a measure the Committee considers important if the Department is to maximize the probability that an audit will produce results. For this to be possible, the Department needs high-performance information

systems, and the data processed by those systems must be extensive as well as pertinent.

During his meeting with us, the Deputy Minister tried to reassure your Committee by tracing the broad outlines of the Department's Compliance Program, the main improvements that had already been made and the measures the Department intends to take in the course of the coming year. For example, through administrative integration the Department plans to bring together audits for income tax, GST, deductions at source, international taxes and Customs. One of the effects of this measure will be that the Department will perform full annual audits of all large corporations, which account for approximately 50 per cent of GST revenues.

As in the case of collection activities, the Committee recognizes that the Department has made a commitment to take concrete measures to improve its audit, special investigation and non-filer identification activities. However, in order to follow the Department's progress and ensure that its initiatives produce the desired results, your Committee recommends:

That the Department report to the Committee in February 1996 on the progress it has made with respect to the measures now being implemented. The report should also state whether the various objectives have been achieved.

For example, the target in this fiscal year for getting SINS on T5s issued by financial institutions is 90 per cent. The Department should say whether this goal has been achieved or not, and if not, what it proposes to do about it. As the Deputy Minister stated in his testimony, if his department's objectives were not met, it "will have to find alternatives, which could include... withhold[ing] tax on income gains when a person refuses to provide their SIN." (27:40) Similarly, the Deputy Minister stated that \$3.8 billion would be assessed as a result of audits in 1994-95. The Department should say whether this goal has been achieved.

In addition to working to improve its Compliance Program, the Department should also, in your Committee's opinion, improve its specific objectives for audits and special investigations. Now that the GST is firmly in place, the Department should have objectives for such things as number of audits and the level of additional reassessments arising from audits. With respect to income tax, the Department should set objectives for such things as amounts recovered under the Non-Filer Program and number of referrals for legal action per year.

However, your Committee wishes to ensure that these objectives are based on audit levels and other criteria that will maximize program performance. At present your Committee does not believe this is so. Special investigations are a case in point. The Department does not know if its target of 170 referrals for legal action per year is optimal. Its target should be determined by the impact of legal action on the fight against tax evasion and not simply by available resources. Your Committee therefore recommends:

That the Department establish precise objectives for all its compliance and enforcement activities, after first determining whether these objectives will maximize its performance in terms of compliance with the Act.

Lastly, your Committee thinks that the Department must try at regular intervals to determine whether it is succeeding in increasing compliance through its various programs. Your Committee therefore recommends:

That the Department evaluate the effectiveness of its existing programs by researching compliance and carrying out program evaluations.

## Conclusion

A number of major changes are planned for the various collection, audit and special investigation activities over the next year. Your Committee realizes that this constitutes a challenge for the Department.

In addition to reporting to us in a year's time, your Committee would like the Department to inform parliamentarians more fully about its activities and the way it is carrying them out. Your Committee believes that the Department should include more information on its general performance. Parliamentarians are entitled to know whether the many initiatives announced by the Department are producing the anticipated results. Your Committee therefore recommends:

That the Department take steps to report more fully on its general performance in Part III of the Estimates, starting in the 1996–97 fiscal year. It should include in its Part III the extent to which its objectives have been met and what the impact of its activities has been. It should also include the results of its research into compliance and its program evaluations.

Pursuant to Standing Order 109, your Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 26, 27 and 34 which includes this Report) is tabled.

Respectfully submitted,

RICHARD BÉLISLE

Chair.



## REPORTS TO THE HOUSE

Monday, May 8, 1995

The Standing Committee on Public Accounts has the honour to present its

### NINTH REPORT

Pursuant to Standing Order 108(3)(d), your Committee has considered the 1994 Report of the Auditor General (AG) concerning the Department of Finance and Revenue Canada: chapter 32, Tax Incentives for Research and Development, and chapter 33, Tax Assistance for Retirement Savings.

#### Introduction

When the AG's Report was tabled in November 1994, the Committee decided to give priority to the chapters concerning Revenue Canada. It therefore held a meeting on 14 March 1995 on chapters 32 and 33 with representatives from the Department of Finance, Revenue Canada and the Office of the AG.

#### Background

Tax incentives for research and development, and tax assistance for retirement savings are two types of tax expenditures that are quite significant in financial terms and affect a large percentage of the population and a good many businesses.

The government has estimated that, in 1991, deferred tax revenue it did not collect because of tax assistance for retirement savings amounted to some \$15 billion, or 2.2% of the Gross Domestic Product (GDP). Approximately 5.2 million individuals (38% of the labour force, or 47% of persons employed) contributed \$19.7 billion to registered pension plans, and 4.8 million individuals (26% of all tax filers) contributed \$16 billion to RRSPs.

Where tax incentives for research and development are concerned, payments are made in the following sectors: approximately \$16 million to some 6,000 individuals; \$350 million to 5,000 small private-sector Canadian-controlled companies; and \$750 million to 1,800 other companies.

A dollar of foregone government revenue is just as important as a dollar of government spending. Tax incentives and direct expenditures have a similar effect on government finances. This is the case with tax incentive programs for research and development.

Where tax assistance for retirement savings is concerned, the government defers, but does not forego, the collection of revenue. However, this assistance represents a considerable cost to the government.

Tax incentives are demand-driven and have no ceilings. Taxpayers who meet certain conditions (investing in research and development or RRSPs) are entitled to the tax benefits provided for in the Income Tax Act and can take advantage of income tax credits. The cost to the government of these programs depends on the amount of eligible expenditures. The more eligible expenditures are claimed by taxpayers who exercise their right to these income tax credits, the higher the cost to the government. The reverse is also true: the cost to the government will be lower if claimed eligible expenditures are lower. Since it is sometimes difficult to predict taxpayer behaviour, tax incentives carry some risk to the government. Thus it is all the more important to have adequate cost monitoring mechanisms in place so that tax expenditures can be well managed and accounted for in a timely manner.

This is not the first time the Public Accounts Committee has addressed the issue of tax expenditures. In 1987, the Committee reported on tax expenditures in general. Its recommendations dealt with information to Parliament, program evaluation, and monitoring of tax expenditure programs. In 1989, the Committee considered evaluation activities at the Department of Finance and produced two reports. The Committee criticized the Department for disbanding its Tax Measures Evaluation Division. It also expressed the wish that certain specific programs be evaluated and that the Department publish an annual report on tax expenditures. Although some improvements have been made over the years, the Committee cannot help feeling that the more things change, the more they stay the same. This report deals with practically the same points as the 1987 report: information to Parliament, program evaluation, and monitoring.

### Information On Programs

At present little information is available on the costs and results of these two tax incentive programs or, in particular, on their benefits. The Department of Finance now publishes a report on tax expenditures more regularly. This report, entitled “Personal and Corporate Income Tax Expenditures”, briefly describes each expenditure and presents some data on the actual amount of revenue foregone or deferred for several years. Although this situation is an improvement over past years, the Committee considers that the Department should do much more in terms of the information it provides to Parliamentarians and the general public.

The Department of Finance indicated that it is considering expanding the scope of the “Personal and Corporate Income Tax Expenditures” document in order to improve the information available. The Committee wants to be sure the Department follows up on this commitment as soon as possible. The Committee therefore recommends:

That the Department of Finance publish better information annually on tax incentives for research and development, and tax assistance for retirement savings, in its document on tax expenditures. By the expression “better information”, the Committee means information on what tax incentives should achieve, what they should cost, what they actually cost, and what they have achieved. The document on tax expenditures, then, should provide information on long-term trends in the costs of these programs and their impact on future budgets. Lastly, the document should contain a reference to information on businesses that benefit from research and development tax incentives and their type of activity.

That, as soon as the next document on tax expenditures is published in December 1995, the Department be able to demonstrate notable progress where available information on tax incentives is concerned.

In order to ensure that the Department is on the right track, the Committee recommends:

That the Department submit the proposed improvements to the Committee before they are published, so that the Committee can express its opinion on them.

In addition, the Committee would like the Department’s efforts to improve information not to be limited to these two programs, but to cover all tax expenditures. Although the Committee recognizes that this is no small task, it considers that knowing the cost of tax expenditures – like knowing the cost of direct expenditures – is of the utmost importance. The Committee therefore recommends:

That the Department improve its data sources and estimating methods, and provide itself with the resources required to do so, in order to quantify the foregone or deferred revenue of a greater number of tax expenditures.

The Committee was also surprised to learn that Revenue Canada did not already have in its information system a breakdown by sector of activity of the 1,800 businesses receiving \$750 million in tax incentives. Revenue

Canada declared to the Committee that it has to re-open the file for each of the 1,800 companies to inform the Committee on their sector of activity. The situation is the same for the 6,000 individuals and the 5,000 small private sector companies. In the Committee's opinion, knowing the profile of these taxpayers is an essential prerequisite for good management and monitoring of the program.

Revenue Canada has made a commitment to provide the Committee with the amount of tax incentives by sector, by mid-May for payments made in 1993–1994 and by mid-August for payments made in 1994–1995. Also, the Department will classify for the Committee these 1,800 companies by sector of activity, noting the number of companies in each sector as well as the total credits awarded to each sector. The Department has also made a commitment to provide, from among the 15,000 requests for adjustment received, information on the number received from large businesses. The Committee expects to receive this information by mid-August.

## **Program Evaluation**

### **Tax incentives for Research and Development**

Despite the fact that the program of tax incentives for Research and Development costs over \$1 billion per year, no formal evaluation of this program has yet been carried out. Given the considerable amount of money at stake, the Committee believes that the government should be able to answer essential questions such as the following: (a) have the program's objectives been reached; (b) who benefits from the program, and in what way; (c) has the program encouraged activities that would not otherwise have occurred and what are the estimated amounts paid to taxpayers for activities that would have occurred in any case; (d) how many jobs have been created because of the program; and (e) to what extent have these tax incentives increased Canada's competitiveness.

The Department of Finance has made a commitment to carry out a program evaluation, which it intends to complete next year. It has already begun developing a methodology to elicit the desired information. In order to follow up closely on the Department's progress and ensure that the evaluation is completed as soon as possible, the Committee recommends:

That the Department submit to the Committee by September 1995 a preliminary report on the methodology to be used for program evaluation (evaluation framework); the evaluation will have to take into account the questions noted in this preliminary report.

That the Department publish the results of the evaluation of the program of tax assistance for research and development by December 1996.

### **Tax assistance for retirement savings**

In 1991, the Committee informed the Department of Finance that it wanted the new tax treatment of retirement savings to be evaluated (Second Report, 3rd Session, 34th Parliament, 1 November 1991). In response, the Department suggested that a series of nine evaluations be carried out in order to evaluate the results, costs and other consequences of the recent changes to ceilings for retirement savings eligible for tax assistance. However, these evaluations of the program of tax assistance for retirement savings are slow in coming. They were to be completed by the end of fiscal 1993–94. It now appears that the Department intends to have them completed by the end of 1996. Although at the meeting the Department reiterated its intention to produce these nine evaluations, it made no mention of, and gave no details about, progress in this matter. The Committee finds this delay simply unacceptable. In the upcoming year, Parliament will have to make important choices concerning pension issues. At that time, if Parliamentarians are to have solid grounds for their decisions, they will need information on the present programs and their relevance. The Committee does not, therefore, want these evaluations of the tax treatment of retirement savings to arrive too late. The Committee therefore recommends:



That the Department take the necessary measures to speed up production of the promised nine evaluations. In the meantime, and by the beginning of September 1995 the Department will have to provide a revised work plan for the nine evaluations.

### **Monitoring Of Costs**

The money spent for various programs must be subject to certain monitoring if it is to be properly administered. The Department of Finance must have the information it needs in order to determine the cost of tax incentives. Unlike direct expenditures, which are fixed amounts, expenditures incurred as tax incentives are demand-driven, which is one more reason to monitor them. The government knows the exact amount of income tax credits requested only when it receives the income tax returns, that is, several months after the expenditures have been incurred. It is the responsibility of the Department of Finance to follow up closely on taxpayer behaviour so that it can anticipate, as far as possible, the impact on costs of changes to the parameters (legislation, eligibility) and act quickly if the spirit of the policy is not being respected. At present, the Committee is of the opinion that the Department is not adequately managing tax incentive programs.

Requests for research and development adjustments show how important it is to monitor tax incentives systematically. The Director, Business Corporate Income Tax Division, Department of Finance conceded to the Committee that the amendments resulting from the 1994 budget (limiting expenditures eligible for income tax credits to those claimed no later than 18 months after the year in which they were incurred) were intended to limit the use of the credit for expenditures that would have been incurred in any case. The Committee shares the AG's opinion that if the Department had monitored the situation better and determined sooner that changes were required, it would have received fewer requests for adjustment and the transitional costs would have been lower. The Committee is concerned not only about the high amount of the credits themselves, but also about the cost of processing these 15,000 requests, which is not negligible. The Committee therefore recommends:

That, once all the requests for research and development adjustments have been audited, Revenue Canada provide a report on the transitional costs in terms of foregone revenue and administrative costs.

The case of financial institutions that received income tax credits for research and development of software shows, once again, that it is important to monitor tax incentives in order to determine whether the activities for which taxpayers are requesting adjustments are indeed the activities the government wants to encourage. The Department of Finance made changes in this regard in the February 1995 budget. The Committee wonders whether the Department would have reacted in the same way if there had not been so much publicity about this whole matter in December 1994. In fact, the Department already knew that this situation was problematic, but did not take action until quite recently. The Committee expects the Department to manage the risks associated with this type of situation more carefully and effectively. The Committee notes that this has not always been the case in the past. For example, the Committee reported in 1986 on the Scientific Research and Development Tax Credit (SRDC). In the opinion of the Committee, the Department of Finance was negligent in its management of the program. Ten years after its termination, a considerable outstanding balance still exists. More recently, the Committee examined resource allowance income tax provisions (Gulf case). The Committee deplored the absence of a formal risk management process and recommended that such a process be established. The Committee therefore recommends:

That the Department of Finance, in collaboration with Revenue Canada, ensure that adequate monitoring mechanisms are in place so that situations such as the granting of income tax adjustments or credits to financial institutions can be detected as soon as possible. When such situations occur, the Department should ensure that prompt action is taken in order to limit tax losses.

Where the program of tax assistance for retirement savings is concerned, the Committee was surprised to learn that this program was managed by only three persons. The Committee believes that this number is far from adequate in light of the important tasks of monitoring, evaluating and reporting on the program's costs and effectiveness and recommending improvements to it. The Committee therefore recommends:



That the Department of Finance ensure that the resources allocated to managing the program of tax assistance for retirement savings are adequate.

### **Revenue Canada's Compliance Monitoring Strategy**

The Committee is concerned that the Department does not have all the tools it needs to ensure effective compliance with the legislation on tax assistance for retirement savings. For example, during the meeting the fact was discussed that more could be done for determining the validity of RRSP deductions claimed by taxpayers. The Assistant Deputy Minister (Policy and Law Directorate) told the Committee that all claims for RRSPs are subject to validation and auditing, as with any other deduction claimed by taxpayers, who must provide receipts on demand. Nevertheless, the Committee believes that issuers of RRSPs (mostly financial institutions) should also be involved in the process as there is now no requirement for them to remit to Revenue Canada data on contributions made. The Committee therefore recommends:

That Revenue Canada request financial institutions to supply the information on RRSPs, along the lines of T-5s.

The Department intends to take several measures during the upcoming year in order to improve its compliance strategy. In order to follow up on the Department's progress in this matter, the Committee therefore recommends:

That, by October 1995, the Department submit to the Committee a work plan of the measures it intends to take in 1995-96 in order to respond to the AG's recommendations and the concerns expressed by the Committee at the meeting.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 29 and 34 which includes this Report) is tabled.

Respectfully submitted,

RICHARD BÉLISLE

CHAIR.

## REPORTS TO THE HOUSE

Thursday, May 18, 1995

**The Standing Committee on Public Accounts has the honour to present its**

### **TENTH REPORT**

Pursuant to Standing Order 108(3)(d), your Committee has considered Chapter 18 of the 1993 Report of the Auditor General (AG): Department of National Health and Welfare – Programs for Seniors.

#### **Introduction**

When the AG's Report was published in February 1994, the issue of pension overpayments, estimated at between \$120 million and \$200 million, generated considerable discussion. In the Committee's opinion, these figures masked a more important issue: the Department's ability to manage pension programs effectively.

The Committee therefore held two meetings on this subject, on 3 November and 6 December 1994, with senior officials from the Department of Human Resources and the Office of the Auditor General. At the Committee's request, the Department also submitted an internal Action Plan on the income security programs referred to in this report.

#### **Background**

There are a number of programs for seniors in Canada, but pension programs are by far the most significant in financial terms. In 1992–93, benefits paid under pension programs amounted to nearly \$30 billion.

There are two main pension programs: the Old Age Security (OAS) program, and the Canada Pension Plan (CPP). The OAS program provides direct financial benefits designed to promote and enhance the income security of persons aged 65 and older. This program, funded from general tax revenues, has three components: OAS, Guaranteed Income Supplement (GIS), and Spouse's Allowance (SA). OAS is subject to clawback: high-income seniors must reimburse all or part of their benefits.

CPP is designed to provide basic protection on retirement or in case of disability or death. Unlike OAS, CPP is a contributory program. The federal government manages CPP and pays out the benefits, which are funded from contributions received, but does not itself contribute. Except for some exemptions, all workers aged 18 to 64 must pay contributions based on their annual earnings. In 1993, employees contributed 2.5% of their pensionable earnings to a maximum of \$752.50, and employers contributed an equal amount (to a maximum of \$752.50).

The costs of pension programs will increase considerably in the coming years. OAS forecasts indicate that benefit costs will double in 30 years. At that time, employer and employee contributions to CPP will have reached approximately 12%. Some groups have already voiced their concerns about CPP funding and suggested that the minimum age for receiving benefits be raised.

Although not everyone shares these concerns, it is nevertheless important that these programs be well managed if their costs are to be controlled. Thus the Committee tried to ascertain whether the Department was performing this duty properly and managing pension programs effectively and efficiently.

At the two meetings on pension programs, Committee members' concerns addressed the following five issues: lack of information; management framework; overpayments; service to clients (telephone calls and appeal process); and the project to redesign income security programs.

**A. Lack of information**

The increasing proportion of seniors in the coming years will have a significant impact on the costs of income security programs. Comprehensive, timely information on the affordability and effectiveness of these programs is essential. The Committee is of the opinion that parliamentarians must have this information when decisions must be made on behalf of all Canadians. However, annual program reports are often tabled very late, and Part III of the Estimates does not contain much information on future costs. Furthermore, little effort is made to increase the public's understanding of CPP.

The Department has set up internal mechanisms in order to ensure that annual program reports are tabled sooner. The annual reports on income security programs for 1989–90 and 1992–93 were tabled in March 1994. The report for 1993–94 was tabled in February 1995. The Committee believes that the Department should try to do more in order to reduce the delay between fiscal year ends and the tabling of program reports. It therefore recommends:

That the Department table its annual report on income security programs no later than six months after the fiscal year end.

According to the Department, a communication strategy on how CPP operates has been developed and is being implemented. The Committee believes that the government must reassure taxpayers about CPP's long-term viability and inform them about any likely changes to future CPP costs and benefits. The Committee therefore recommends:

That, by 31 January 1996, the Department inform the Committee of the cost and progress made as of 31 December 1995 in implementing its communication strategy. The Department will also have to set up mechanisms in order to evaluate and be accountable for the results of this strategy.

More generally, the Committee believes that it is of the utmost importance that parliamentarians and the public be made aware of the considerable future costs of programs for seniors. The Committee therefore recommends:

That the Department include information on the future costs of the Canada Pension Plan, the Old Age Security Program and the Guaranteed Income Supplement in the Part III of the Estimates.

**B. Management framework**

As is the case in the private sector, CPP is funded from contributions; however, it is managed by the federal government, which pays out the benefits. The other programs for seniors are funded from tax revenues. Thus decisions made for one program are not necessarily valid for another. As is the case in the private sector, CPP should be managed for the benefit of contributors and beneficiaries. The Committee is concerned about the fact that, at the time of the AG's audit, there was no CPP management master plan. More specifically, the Committee does not believe that the present management framework ensures that CPP management decisions maximize CPP performance.

According to its internal Action Plan, the Department is developing an improved accountability framework by carrying out several activities, including the preparation of a CPP Business Plan. Interdepartmental Memorandums of Understanding are being revised in order to clarify CPP management roles and responsibilities.

The Committee is of the opinion that the Department is making efforts to improve the CPP management framework. However, it wants to ensure that these efforts produce concrete results. For example, the Committee wants to be certain that the CPP decision-making and approval process operates so that managers are not ultimately dependent on Treasury Board authorization for administrative expenditures that will save benefit money. The Committee therefore recommends:



That the Department include in its management framework mechanisms that will ensure independent CPP decision-making and approval;

That the Department provide the Committee, by September 1st 1995, with details about the content of its Business Plan. For example, the Committee would like to know whether the Business Plan contains objectives (concerning overpayments, for example), what measures are being taken in order to achieve those objectives, and whether the Business Plan indicates who is to be accountable for the results.

### **C. Overpayments**

As well as causing financial losses, the issue of overpayments has cast doubt on the Department's ability to manage pension programs. With the present systems, it has been impossible to identify or record the vast majority of overpayments. Furthermore, very few of these overpayments have been recovered. Two program sectors generate most overpayments: the lack of an effective disability reassessment process, under CPP; and the GIS renewal process, under the OAS program. At the Committee's second meeting, the Assistant Deputy Minister noted the progress the Department had made on this subject.

#### **(a) Disability reassessment (\$65 million)**

The Department indicated that in 1993 a 10-member team was assigned to a disability reassessment project that saved \$12.9 million. Following this success, the Department made a submission (which was approved) to Treasury Board in order to obtain additional resources for this project. To date, this project has recovered \$22 million. The Department hopes to recover the remaining \$43 million in overpayments by December 1995.

#### **(b) GIS renewal (\$40 million)**

To date, the measures taken by the Department have recovered \$2.6 million. Other measures will be taken in order to eliminate overpayments permanently. For example, by 1995-96, the staff of income security programs will receive the income tax data they need much sooner from Revenue Canada, and will thus be able to verify before the beginning of the year the income declared on annual renewal applications. Clients will receive the exact amounts to which they are entitled, and the number of overpayments will thus be significantly reduced. Bill C-54 (which has reached the Committee consideration stage) will make this process possible. The Department hopes to recover the remaining \$37.4 million in overpayments by mid-1996.

#### **(c) Other (\$70 million)**

To date, the Department has successfully identified \$14 million in other overpayments. It hopes to recover the remaining overpayments when the project to redesign income security programs is completed, in mid-1997.

The Committee considers that the Department is taking concrete measures to resolve the issue of overpayments. However, it wants to ensure that the Department does indeed take these measures as planned. The Committee therefore recommends:

That, by 31 January 1996 at the latest, the Department report on the overpayment situation as at 31 December 1995.

### **D. Service to clients**

The Committee is concerned that, at the time of the AG's audit, the Department provided inadequate service to its clients in two areas: disability benefit appeals under the CPP, and pension-related telephone calls. For example, the Department's client service centres received 4 million telephone calls per year, but an additional 7 million calls were interrupted or abandoned by callers.



At one meeting, the Deputy Minister said that in January 1994 additional resources had been allocated to telephone service in all parts of Canada and a telephone centre added in Bathurst. In October 1994, the percentage of calls answered rose from 39% to 90%. The objective is 97%. Thus the Department seems to have improved its telephone service. However, the Committee considers that the Department should also try to reduce the public's need to contact the Department by telephone. The Committee therefore recommends:

That, by 31 January 1996, the Department report on the situation as at 31 December 1995 regarding telephone calls. As well, the Department should carry out research in order to determine the reasons for the high volume of telephone calls and take measures to remedy the situation. Furthermore, the Department will have to reduce the number of forms (14) that have to be filled in by elderly people applying to the CPP and the CAS program, in order to cut back on the number of telephone calls needed.

Concerning the CPP disability benefit appeal process, the increasing number of persons appealing decisions denying them disability benefits has created a considerable backlog. In March 1993, more than 17,000 cases had not been processed and the waiting period could be as long as one year. The Committee finds this situation unacceptable.

The Department indicated to the Committee that it had hired additional employees to help reduce the backlog. The Department hopes to reduce the backlog to between 3,200 and 6,000 appeals by 31 March 1995. However, the Committee wonders whether this measure has really resolved the issue. The Committee is of the opinion that the Department should ascertain why the percentage of appeals against decisions denying benefits increased to 60% in 1992–93 and, in particular, why most appeals are being granted but in many cases only at the second level of appeal. The Committee therefore recommends:

That, by 31 January 1996, the Department report on the situation as at 31 December 1995 concerning the CPP disability benefit appeal process. As well, in order to manage the appeal process better, the Department should ascertain the causes of such backlogs in the appeal process. In addition the Department will have to indicate the number of beneficiaries who have appealed Department decisions.

#### **E. Project to redesign income security programs**

At one of the meetings, the Department often mentioned the project to redesign income security programs as a long-term solution to many of the AG's observations. This project consists in setting up an integrated client service delivery network for OAS, CPP and the Child Tax Benefit, in order to improve service to clients. This project will continue until the year 2000 at a cost of \$286.5 million, but should be operational by 1997.

It is important that this project be implemented on schedule, since in the meantime the Department must resort to less effective short-term solutions. However, it must be established that this project will resolve the issues as anticipated. The AG noted that, at the time of the audit, it was impossible to determine the extent to which issues concerning these programs, such as overpayments, would be addressed and resolved. The Committee intends to follow up closely on the implementation of this project and monitor whether it is carried out on schedule. The Committee therefore recommends:

That, by 31 January 1996, the Department report on progress made as of 31 December 1995 on the project to redesign income security programs. Then, the Department will have to submit to the Committee annual progress reports until the implementation of this project is completed in 1997. In each progress report the Department will have to indicate the cost of the implementation of the new system and the amount of savings that has been realized compared to the previous one.

#### **Conclusion**

Until implementation of the project to redesign income security programs is completed, the Committee believes that the Department should spare no effort in finding ways to innovate where service delivery is concerned.

The inefficiency of present practices is costly. For example, according to the Department's forecasts, \$1 billion in benefit overpayments could exist and not be detected before the implementation is completed in 1997. The Committee therefore recommends:

That the Department develop management practices that ensures more efficient service delivery. For example, initiatives should be approved according to whether they eventually produce results, not solely according to the initial investments required.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 20, 23 and 34 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,

Chair

**BLOC QUÉBÉCOIS MINORITY OPINION  
TENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS  
CHAPTER 18 OF THE 1993 REPORT OF THE AUDITOR GENERAL  
PROGRAMS FOR SENIORS**

At paragraph 18.38 of his Report, the Auditor General notes that the Department has not been able to determine why so many seniors contact the Department by telephone. According to the Auditor General, the inefficiency of certain methods of communication and administration would explain in part this situation. For example, "There are fourteen Old Age Security and Canada Pension Plan forms that seniors may be required to complete. Only one of these, the Old Age Security application form, conforms with the Department's own guidelines for communicating in print with seniors."

In light of these comments, the Bloc Québécois recommends that the first recommendation under part "D. Service to Clients" be amended by adding, at the end of the recommendation, the following:

"On connection with its voice-box program, the Department shall present the cost of the project, the number of calls received up to March 31, 1995, the savings realized, and indicate whether its clientele really appreciates the new system and considers that there is a definite improvement in the service."

Ottawa, Wednesday, May 17, 1995

Gilbert Fillion

René Laurin

## REPORTS TO THE HOUSE

Wednesday, May 31, 1995

The Standing Committee on Public Accounts has the honour to present its

### ELEVENTH REPORT

In accordance with its Order of Reference of Tuesday, February 28, 1995, your Committee has considered Vote 35 under FINANCE in the Main Estimates for the fiscal year ending March 31, 1996 and reports the same.

A copy of the relevant *Minutes of Proceedings (Issue No. 35 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,

Chair.



# REPORTS TO THE HOUSE

Monday, June 12, 1995

The Standing Committee on Public Accounts has the honour to present its

## TWELFTH REPORT

Pursuant to Standing Order 108(3)(d), the Standing Committee on Public Accounts has the honour to present its

### I. Introduction and Background

The Department of National Defence (DND) has the largest budget of any department in the federal government. As such, it has had to contribute its fair share to the government's efforts to reduce federal deficits. For example, the government announced in its Budget of February 1995 that DND's budget is being reduced by \$2.8 billion over four years. These cuts will result in a reduction in personnel and infrastructure.

Despite these sizable reductions, the Department's share of overall government expenditure will still remain enormous. In financial year 1994–95, DND's total budget was \$11,545,000,000. For financial year 1995–96, the Department will be allocated a total of \$11,080,000,000. Total projected defence spending for 1997–98 is just under \$10 billion. This means that defence spending per Canadian will fall to about \$340 a year from about \$400 a year currently.

At the same time as its budget is being reduced, the Department is faced with major changes in the global defence environment. The end of the Cold War has altered the defence needs of western nations in ways that are both radical and not yet fully understood. In the years to come, the Department will have to respond to this rapidly changing defence environment, a challenge it must meet with fewer resources.

In light of the large amount of public resources consumed by DND and the enormous challenges it is facing, the Committee was particularly interested in examining those chapters of the Auditor General's Report that dealt with this department. The Committee is especially anxious that Canadians be provided with effective armed forces at a reasonable cost. Consequently, the Committee held hearings with the Auditor General and DND officials on 28 February on chapters 26 and 27 (Infrastructure Reduction and Infrastructure Management) and on 4 April on chapters 24 and 25 (Defence Management Systems and Information Technology).

During these hearings, and in written responses to further enquiries, the Department indicated to the Committee that it was aware of the problems it faces and is sincere about addressing them; it was not successful, however, in persuading the Committee that the measures it proposes are sufficient or timely. The Committee notes that the Department was already aware of many of these problems yet had failed — despite repeated commitments to the contrary — to take sufficient measures to solve them. Evidence presented in chapter 2 (Follow-up of Recommendations in Previous Reports, Exhibit 2.3) of the 1994 Report shows that the Department has not yet finished taking action on numerous recommendations made by the Auditor General since 1984. The Committee thus reserves its approval of any of the measures the Department intends to take until such time as DND can produce concrete results. As the Auditor General remarked, much needs to be done before the problems he has raised in these chapters can be considered resolved.

### II. Chapter 24 — Defence Management Systems

The Department of National Defence is a large, complex organization that may be asked to perform critical tasks with very little advance warning. Given its size and the nature of its duties, DND has a vital need for good

management systems. The Department uses its management systems for a variety of purposes including policy development, long-range planning, managing support functions, and the planning and control of military operations.

These management systems are costly, elaborate, and require large numbers of people to operate them. At the time of the audit, DND employed approximately 11,000 staff with total annual salaries of \$436 million for this purpose. With the large amounts of money and effort spent to support such a vital function, it is reasonable to expect that DND's management systems would be appropriately designed and produce good results. The Committee found that this was not the case. It deplores this inefficiency, which is notorious and which for the past few years has been costing the government millions every year.

The audit reported in chapter 24 examined the fundamental components of the overall defence management system: the policy planning and force development system; cost management systems; military readiness reporting systems; and the systems used to manage personnel, supplies and medical resources in emergencies and war.

Significant problems were uncovered in each one of these systems. Plans generated by the planning and force development system were not adequate to guide the allocation of resources. Managers at all levels of the organization did not have good information — especially on costs — on which to base their decisions. Information on force readiness was subjective in nature or not collected as frequently as it should be. Finally, some important information needed to manage during emergencies or in time of war was not available.

Each of the deficiencies in the defence management system identified by the Auditor General is a source of considerable concern to the Committee. The Department, as well, has generally signalled its awareness of these problems and has committed itself to solving them. In the Committee's view, the recommendations made by the Auditor General in his Report provide a sound basis for the Department's efforts; we fully expect these recommendations to be implemented in a more timely and thorough fashion than those contained in earlier reports.

The Committee is seriously concerned about levels of staffing used to support management systems at headquarters, in particular the need for more than 300 management committees, and it supports the views of the Special Joint Committee on Defence Policy, whose report called for substantial cuts at headquarters. In addition, the Committee is concerned about the Department's need to significantly improve cost management and cost information.

### **Headquarters Staffing**

As noted in the introduction, current defence management systems are labour-intensive. Most staff required to support these systems are located at various headquarters. Recently, as part of an initiative to streamline management practices, DND has taken steps to "de-layer" management and has undertaken the decentralization of decision-making authority. In the 1995 Budget, it was announced that the Department's three environmental commands (maritime, land and air) will be closed and their functions divided between DND Headquarters and lower command echelons.

In his report, the Auditor General has observed that number of staff working at major defence headquarters continued to grow until 1992 despite DND's claim that, beginning in 1990, it was going to reduce headquarters staff substantially. In 1993, headquarters staffing finally did begin to decline, but only modestly. On 04 April, Mr. John McLure, the Acting Deputy Minister of Defence, told the Committee that DND plans to cut resources allocated to headquarters by one-third by 1999 (33:11). At the same meeting, Lt. Gen. Paddy O'Donnell, Vice-Chief of the Defence Staff, indicated that these resources would be reduced by 50% by 1999 (33:37).

Although the Committee notes that headquarters staffing has now begun to decline, it is anxious that DND attain its reduction targets in this area. If DND is serious about its plans to decentralize greater authority down to the base level, and about operating within its budgets while maintaining a viable military capacity, it must continue to reduce staffing at its headquarters. The Committee therefore recommends:



That the Department of National Defence achieve its stated objective of reducing the resources allocated to its headquarters by fifty percent by 1999.

That the Department submit, beginning in September 1995, annual progress reports on reduction of its headquarters staff.

### **Cost Management and Cost Information**

In order to make sound decisions, managers at any level of any organization must have information that is accurate, timely and complete. This is particularly so with regard to information on costs.

The Committee was concerned, therefore, to learn that the AG believes that “the most significant problem in the defence management system is the lack of adequate cost information on which to base decisions.” (24.99) Adequate cost information was lacking in several critical areas of the defence management system and at all levels of management.

At the strategic level, the audit shows that DND planners have not done a good job of estimating whether their plans were affordable. For example, no affordability studies had been done to support the 1992 Canadian Defence Policy statement. Subsequent plans to implement the 1992 statement contained only partial information on costs — only activities and projects already approved by the Department were costed; other elements later estimated to cost \$700 million had been left out. Even on the basis of the elements that were costed, the AG found that the 1992 plans exceeded the funds forecast to be available by \$542 million for each of the first five years of the plan.

In the Committee’s view, affordability studies are a vital ingredient in the policy planning and force development processes. In the absence of such studies, planners lack the essential information they need to make sure that the plans they devise are realistic and affordable. The Committee therefore recommends:

That the Department of Defence make complete and detailed cost information and affordability studies essential elements in all of its defence planning and force development processes.

Because the Committee firmly believes that information on the affordability of these plans should be available to parliamentarians and taxpayers alike, we also recommend:

That the Department include information on the affordability of its force development plans in public documents, such as its departmental Business Plans and Part III of its Estimates.

Cost information is also often absent or inadequate when the Department’s senior managers make important decisions. For example, the AG examined ten cases considered by senior managers where cost information was essential to the decisions taken; in six of these cases, this information was not adequate. In addition, twelve cost-reduction projects were examined to see whether or not managers were provided with appropriate cost information by departmental information systems. With the exception of four projects, none of them were fully successful in attaining their goals, often because adequate cost information was not available.

The Committee has difficulty in comprehending how departmental managers can make decisions without the benefit of good information on costs: indeed, the evidence presented by the Auditor General demonstrates that they cannot. The Committee was also astonished to hear departmental witnesses assert on several occasions that they were satisfied that they have adequate information on which to base major decisions (33:14; 33:18; 33:41), contrary to the report’s findings. The Committee cannot agree with these assertions. The audit shows conclusively that information supplied to departmental managers is not adequate and that the consequences are serious and represent an important loss of money to both the Department and the taxpayers who fund its activities. The Canadian

Aerospace Training project is a particularly flagrant example: the Department was out by \$500,000 in its estimate of basic training costs for a single student. This loss of money is particularly disturbing because it is avoidable and simply not affordable. Accordingly, the Committee recommends:

That, focusing on critical areas first, the Department of National Defence develop the means to provide its managers with cost information that is relevant to the decisions they make. This information must be timely, accurate, and verifiable.

Because the Committee is anxious that the Department take steps which are immediate and effective to remedy this situation, it also recommends:

That Department of National Defence present a detailed report to the Committee on the progress it has made in providing its managers with the cost information they need by April 1996.

The Committee notes that the Department does not yet have the means in place to determine whether its cost-reduction initiatives are meeting their objectives. The Committee believes that it is important that the Department's managers have access to this kind of information in order to design other cost-reduction initiatives, to make suitable adjustments to existing efforts, and to help the Department meet the challenges of operating within reduced budgets. The Committee therefore recommends:

That the Department of National Defence develop, on an urgent basis, the means to track the results of its cost-reduction initiatives to ensure that the intended objectives are being achieved; and

That the Department report on its efforts to develop the means to track the results of cost-reduction initiatives to the Committee by April 1996.

DND informed the Committee that it is making improvements in capturing current costs, forecasting costs related to decisions, and capturing actual costs impacts. It says that it is also taking initiatives regarding its resource management information system, cost centre management, individual training management information system, tracking of budget decisions and its customer consumption awareness system. The Committee sees potential merit in these initiatives and expects that they will form part of the Department's efforts to supply its managers at all levels with better cost information.

The Committee is also concerned that costs in the Department will never be managed properly in the absence of incentives to do so. Clearly, the lack of adequate information on costs constitutes a disincentive to good cost management. Another involves lack of clear accountability for the results of the decisions that are taken.

Witnesses from DND told the Committee that the Department has developed a five-year business plan that provides an accountability framework and operating budgets that transfer control over resources to the lowest possible level. Base commanders are being made responsible for approximately 40% of the costs of managing their bases and the Department has an objective of expanding this responsibility to 60% of the costs. This is appropriate in light of the fact that commands and bases consume most of the resources. The Committee was also informed that the Department now has a policy that will allow base commanders to keep any savings they generate for further investment in their bases (33:34) — an important incentive to manage costs wisely.

The Committee believes that in light of decentralization of decision-making authority, the Department should continue to find ways to strengthen accountability at the command and base levels for proper cost management and to let managers at that level know the costs of the decisions they take. Accordingly, the Committee recommends:

That Department of National Defence continue to strengthen and improve its accountability and incentive structure. As part of this effort, the Department must charge, to the fullest possible extent, the full costs of consuming resources directly to command and base budgets.



### III Chapter 25 — Information Technology

Thirty percent of the federal government's entire information technology budget is spent by the Department of Defence: this makes DND the largest departmental spender in this area. DND's total information technology base of computers and telecommunications systems employs almost 8,000 people and costs approximately \$630 million each year to operate. Information technology capital projects in progress or planned are estimated to cost \$9.5 billion over the next 15 years.

The Committee recognizes how important it is for modern armed forces to have access to the best information technology available. The Committee thus expects that expenditures in this area be especially well managed and that the enormous sums of money spent by the Department on technology not be wasted. It was therefore with considerable disappointment that the Committee reviewed the findings in this chapter of the Auditor General's Report.

The audit's findings were grouped into four areas: military command and control information systems; and program, project, and operations management respectively. The Committee has serious concerns in each one of these areas.

#### **Military Command and Control Information Systems**

Military command and control information systems are used to control military operations and are a vital element in war-fighting capability. Canadian Forces' air, sea, and land forces each have their own information systems for command and control.

Recent experience during the 1990 Gulf War demonstrates the importance of inter-operability between command and control information systems; this allows commanders at all levels in all armed forces to communicate with one another and to access each other's data.

The audit found that command and control information systems being used by Canada's air, land, and sea forces were not inter-operable and were being developed in almost complete isolation from one another.

During the meeting of 04 April, Mr. McLure, the Acting Deputy Minister of Defence, told the Committee that DND wants to address the deficiencies of the command and control information systems by developing the concept of an Integrated Information Environment, and initiating a Joint Command and Control Information System project. He indicated that this project would result in an inter-operable system between defence headquarters and lower level commands.

Although these efforts are belated, the Committee welcomes them and wants to see them progress beyond the realm of intentions and into the realm of tangible results. The Committee accordingly recommends:

That the Department of National Defence make inter-operable, as soon as possible, its command and control information; and

That the Department of National Defence inform the Committee as soon as its systems are inter-operable, this to be no later than April 1996. If by that date the systems are still not inter-operable, the department must present to the Committee a report explaining the reasons for the delay and indicating the anticipated date for the implementation of inter-operable system.

#### **Program Management**

Program Management refers to the senior level of management where strategic decisions are made and resources are allocated throughout the entire Department regarding acquisition of information technology. A

comprehensive approach to managing investment in information technology is needed at this level to ensure that the Department's needs are met and money is spent wisely.

Information technology is subject to rapid change; careful planning and timely decisions are required to avoid purchasing equipment that has become obsolete. The audit found, however, that it took the Department an average of over seven years — fourteen years if the planning phase was included — to complete information technology projects, largely because of the Department's management system. As the AG reports, these delays have cost implications that are enormous.

Several features of the program management system in particular created delays. Proposals had to pass through several stages before getting final approval. As Mr. McLure admitted, the defence program management system "was so complex and overburdening and it required so much production of paper that it ... dragged us down." (33:19) A second feature is the system's requirement that funds be forecast fifteen years in advance, a requirement that is poorly suited to acquisition of information technology which is foreseeable for five years at best. A final feature is the system's failure to attach sufficient priority to information projects with potential to reduce operating costs.

The Department intends to address delays by reviewing the Defence Program Management System (DPMS) in order to streamline the acquisition processes of all projects. While this initiative may address the complexity of the system, the Committee believes that the Department must take specific steps to eliminate all the features of the program management system that are the source of delay. Therefore, the Committee recommends:

That the Department of National Defence begin forecasting funds for future information technology projects on a five-year basis, and put in place a system that will give greater priority to projects that will reduce costs.

The Committee also notes that the Department did not follow through completely on commitments to revise and review its overall program management system in response to findings in the Auditor General's 1992 Report [25:40]. Therefore, we recommend:

That the Department of National Defence report to the Committee on the progress it has made in revising its Defence Program Management System as it relates to the management and acquisition of information technology by April 1996.

## **Project Management**

Project Management refers to managing the acquisition of individual parts of information technology programs and includes development, acquisition, and installation of individual information technology systems.

Of a sample of twelve projects audited, five of them, worth 93% of the total value of the sample, failed to meet the AG's criteria in some significant way. Problems included lengthy delays, substantial cost overruns, lack of cost-benefit analyses, lack of user involvement, and failure to meet stated objectives.

DND acknowledges the problems reported by the AG and says that it is following his recommendations in order to find solutions. For example, the Department says that it is "actively investigating" evolutionary and modular approaches to systems delivery, and that it is ensuring that capital projects are approved only after adequate options analyses have been done. It is also taking steps to reduce the rotation of staff on projects and to ensure that project managers have appropriate skills and training.

The Committee recognizes that the Department is moving in the direction recommended by the Auditor General but wants it to do more than simply investigate the possibility of breaking projects down into more

manageable units. From the Committee's perspective, the Department must take this step if it is to solve the problems identified by the Auditor General. The Committee therefore recommends:

That the Department of National Defence move quickly to adopt a modular approach to information technology projects by breaking them down into smaller, more manageable units.

The Committee intends to monitor the Department's progress in this area. We therefore recommend:

That the Department of Defence report to the Committee by April 1996 on the changes it has made in relation to information technology project management.

### **Operations Management**

Operations Management concerns the actual in-service use of information technology throughout the Department once it has been installed. This includes stand-alone computers, local area networks, major data centres, and telecommunications systems.

DND has reduced its telecommunications costs by about \$10 million each year by establishing the Defence Integrated Services Digital Network. However, improved use of this system offers additional savings that have not yet been realized. The Department has identified major opportunities for cost reduction that the AG estimates could save it \$30 million each year — but had not approved detailed implementation plans. The Committee believes that the cost reduction benefits offered by improvements in the Department's telecommunications network should be realized as soon as possible. Therefore, the Committee recommends:

That the Department of National Defence approve the proposed plans for increasing the savings from its integrated data network, and present a report to the Committee by January 1996 on the saving realised.

### **The Defence Information Services Organization**

In several instances throughout this chapter of his report, the Auditor General ascribes problems the Department is having in its management of information technology to the absence of a central manager accountable for this function. "Such a manager," he writes, "would establish an overall strategy that addresses departmental priorities, set rules for buying and using information technology and provide assistance to line managers and commanders." (25.24)

On 15 July, 1994, DND established the Defence Information Services Organization (DISO) combining many aspects of the Department's information technology management. DISO is headed by a senior military official, MGen John Leech.

During its testimony before the Committee, DND indicated that many of the problems identified by the AG in this chapter would be addressed by DISO. While the Committee acknowledges that the creation of DISO is a move in the right direction, it notes that this organization is still not responsible for all aspects of information technology management: training and certain kinds of procurement remain the responsibility of others. The Committee is concerned that this organization have all the tools necessary to address the problems reported in this chapter. The Committee therefore recommends:

That the Department of National Defence ensure that its Defence Information Service Organization (DISO) be given all the resources and authority it needs in order to manage the Department's information technology effectively.

## **IV Chapter 26 — Infrastructure Reduction**

The Department of National Defence administers the largest portfolio of property in the country. As the Acting Deputy Minister of Defence, Mr. John McLure, told the Committee, the Department "has approximately the



same number of structures as the five most important commercial developers in Canada.” (28:12) The Department spends approximately \$750 million each year to maintain this portfolio.

Between 1989 and 1999, planned defence spending is being cut by \$25 billion. The regular force is being reduced by 32%, or 28,800 and the civilian component is being cut by 45% or 16,600. When these reductions have been completed, DND will have approximately 60,000 military and 20,000 civilian staff. Reductions of this magnitude in the size of the armed forces are reducing the Department’s need for infrastructure.

The Department has already announced that it would decrease its infrastructure holdings by reducing in size, amalgamating, or closing some of its facilities. Some reductions and closures were announced in the 1989 budget. More recently, the 1994 Budget announced the reduction of five bases, the consolidation of two bases, and the closure of four bases, two detachments, two military colleges, and several other smaller sites. Further major reductions were announced in the 1995 Budget: two bases are being reduced in size, and two bases, four detachments, and three environmental command headquarters, closed.

In its budget impact statement issued in February 1995, the Department states that decisions on which of its facilities to keep open are determined on the basis of operational and training requirements. It then details its operational needs which results in a list of between 12 and 14 facilities. This is close to the minimum infrastructure needed to support Canadian Forces that was identified in a 1975 DND study, a model that the Auditor General says could save \$360 million to \$970 million annually. It thus seems likely, based on the criteria for keeping facilities open and the potential savings involved, that the Department will be making further infrastructure reductions beyond what has already been announced. In light of this, the process that is used to select facilities for rationalization becomes quite important.

Currently, decisions about which facilities will be rationalized are taken by the Department in consultation with the government. This process is an internal one and the decisions it produces are made public only when the annual budget is tabled. Departmental witnesses explained that this approach is necessary because of the urgency with which reductions must be effected: a more public process, they reasoned, would simply be too time consuming. The Committee notes, however, that the secretive nature of this process is no guarantee of swift action in closing facilities that are no longer needed: indeed, there are examples of bases that have remained open long after the decision to close them was announced.

From the Committee’s point of view, the decision-making process that is now used to select facilities for rationalization is inappropriate. The current process leaves affected communities with no opportunity to participate in the decision that is taken, nor does it afford them much time in which to adjust to new circumstances. Communities faced with the closure of a military facility do not always receive the benefit of a full explanation of why a decision was taken and are — understandably — likely to resist it. The Auditor General indicates that in the past, such resistance has led to delay in closing some facilities, forcing DND to bear the costs of keeping facilities open that it no longer needs. In other instances, where closures have proceeded, government has been obliged to provide financial assistance to affected communities that was unplanned and, according to the AG, extensive. The Committee believes that there are ways in which DND infrastructure can be rationalized that can avoid, or at least minimize, many of these problems.

In testimony before the Committee, and in his report, the Auditor General described several alternative approaches to rationalizing military infrastructure. In the United States, for example, rationalization takes place according to a process established by legislation. An independent board holds public hearings at which the military, potentially affected communities, and others, can present their case. The board’s findings are then submitted to Congress, which makes a final decision. In Canada, a similar process was recommended in 1992 by the Minister’s Advisory Group on Defence Infrastructure (MAGDI). Among other things, MAGDI proposed that there be:

open discussion, full supporting documentation, and a period of time for affected communities to adjust to closings of bases and other significant infrastructure changes.



The MAGDI recommendations were endorsed by the House of Commons Standing Committee on National Defence and Veterans Affairs in a report tabled in the House on 03 December 1992. In response, the government indicated that it “had not yet finalized the details of a review process...”. Since that time, neither the MAGDI recommendations nor the recommendations of the Standing Committee have been taken up.

The Committee firmly believes that any process that is used to determine which military facilities should be rationalized should be as transparent and open as possible. This would allow all those involved an opportunity to be consulted and to participate in the decisions that are taken. A more open process would be more likely to produce decisions that are acceptable to all parties and thus allow the government and the Department move more expeditiously to rationalize surplus infrastructure. The Committee also believes that because defence is an issue of importance to all Canadians and one which consumes a significant proportion of their taxes, the Canadian public deserves to be as well informed about the rationalization process as possible. Lastly, we note that steps taken by the government to open up the budgetary process itself have met with universal approval. Therefore, the Committee recommends:

That the government develop a process for rationalizing Department of National Defence infrastructure that is as open and transparent as possible and allows every opportunity for those likely to be affected to be consulted.

Furthermore, the Committee also recommends:

That in developing a more open process for rationalizing DND infrastructure, the government give due consideration to the 1992 report and recommendations of the Minister’s Advisory Group on Defence Infrastructure.

## **V Chapter 27 — Infrastructure Management**

Managing DND infrastructure is costly to the Department and the Canadian taxpayer. At the time of the audit, Construction Engineering, the departmental organization responsible for infrastructure, involved 2,000 military and 6,900 civilian person-years, and spent over \$750 million annually on personnel, operations, and maintenance. In addition, Public Works and Government Services Canada pays out approximately \$110 million each year in grants in lieu of taxes for DND properties.

Following reductions, the Department will still retain substantial amounts of infrastructure. In light of the considerable budgetary challenges faced by the Department, it is imperative that this infrastructure be managed according to practices that are sound and effective.

As a result of its examination of this chapter of the Auditor General’s report, the Committee has discovered several aspects of the way in which DND is managing its infrastructure that are in need of substantial improvement. These involve the Department’s deferral of required maintenance, productivity of its in-house maintenance staff, the operation of the quarters it maintains for its married personnel, and the grants in lieu of taxes that are paid to municipalities on the Department’s behalf.

### **Deferred Maintenance**

The Auditor General estimates that the Department had a backlog of deferred maintenance on its properties worth approximately \$1.7 billion at the time of his audit. Maintenance has been deferred for several reasons. Practices within the Department encourage managers to use money earmarked for maintenance on capital investments such as renovation instead; approximately \$70 million is diverted out of maintenance funds each year as a result. Furthermore, departmental policy allows operating funds (which normally pay for maintenance) to be used for major renovations; this is contrary to Treasury Board policy that states that major renovations must instead be

considered capital spending. As a consequence, badly needed maintenance does not get done and cost information needed to manage infrastructure is distorted.

In response to the Committee's enquiries, the Department says it is planning a long-term capital plan for replacement construction under its Business Planning framework: this should streamline the approval process for capital spending and reduce or eliminate the diversion of maintenance funds for renovation purposes. The Department also indicates that it finds Treasury Board policy on recapitalization contains definitions that are "very narrow" and perhaps "too restrictive." DND plans to enter into discussions with Treasury Board during the summer of 1995 to see if their policies in this area can be harmonized.

The Committee acknowledges the steps that have been taken so far, but believes that more must be done to align DND's policies on recapitalization with Treasury Board policy. It therefore recommends:

That the Department of National Defence take immediate steps bring its policies on recapitalization into conformity with existing Treasury Board policy.

In the interim, the Committee recommends:

That until DND's policies on recapitalization are harmonized with Treasury Board policy, the Department adhere to the Canadian Institute of Chartered Accountant's standards on capital assets.

### **Productivity of In-House Maintenance Staff**

The AG reports that the productivity of tradespeople working in Construction Engineering is 33 percent below private sector equivalents: this costs the Department an estimated \$50 million each year. The Department had known about this problem for ten years, but had not adopted the commercial practices that have been proposed as solutions.

The Department says it has begun an extensive review designed to improve its operations and maintenance services. Tradespeople are beginning to drive themselves to work sites (as opposed to relying on military transport services) and the Department has launched initiatives such as Socio-Tech to increase productivity.

The Committee believes, however, that the Department must act more assertively to reduce the magnitude of its losses in this area, and do so immediately. Therefore, the Committee recommends:

The Department of National Defence should actively explore ways to cut the costs of maintenance services such as contracting services out to the private sector or exposing in-house services to competition; and

The Department should present a report by April 1996 on its cost reduction objectives and the savings realized.

### **Married Quarters**

Of the approximately 34,000 buildings held by DND, 24,000 are used to house married personnel. DND has been incurring operating losses on its married quarters since 1978. It currently loses about \$30 million each year on these facilities.

To stem these losses, the Department has taken steps to establish a special operating agency, the Canadian Forces Housing Agency (CFHA), to manage its married quarters. DND had submitted a proposal to Treasury Board seeking permission to establish CFHA; at the time of the Committee's hearings, this proposal had yet to be approved.

The Committee asked the Department to supply details regarding its proposal to establish a special operating agency to run its married quarters. The Committee finds some aspects of these plans disappointing. For example, these plans show that the Department is willing to accept losses on these facilities over a five-year period (1993–1998): this would not be tolerated in the private sector. Secondly, the plan shows that most of the savings are coming from reducing temporary shelter allowances — money paid to lodge armed forces personnel in alternative accommodations while housing is being readied for them. On the other hand, other total direct and indirect expenses are not projected to decline by very much at all.

The Committee agrees with the Auditor General that the Department must act on an urgent bases to eliminate the losses it is incurring on its married quarters. Accordingly, the Committee recommends:

That the Department of National Defence redraft its business plans for the Canadian Forces Housing Authority in order to end the losses on its married quarters sooner than fiscal year 1997–98. The Committee requests the Department to present this new plan by January 1996.

Furthermore, the Committee recommends:

That the Department of National Defence and Treasury Board act to establish a special operating agency for DND's married quarters on an urgent basis.

### **Grants in Lieu of Taxes**

According to a 1992 estimate, Public Works and Government Services Canada (PWGSC) pays \$110 million to municipalities in grants in lieu of taxes on DND properties. In return, DND facilities are supposed to receive municipal and school services. However, the AG discovered that on some bases DND is supplying these services itself: this affects about 30% of the municipal services paid for by the federal government through grants in lieu of taxes. Although base commanders are instructed to eliminate this kind of duplication, they do not control a significant proportion of base expenditures for municipal-type services provided by the Department.

In response to the Committee's enquiry, the Department indicated that base commanders are being encouraged to discuss grants in lieu of taxes with PWGSC representatives and to negotiate with municipalities where full municipal services are not provided. According to the Department, this new procedure will help to establish and reinforce accountability for money spent, to identify the true duplication of services, and to eliminate redundant municipal services expenditures. The Department also says that where municipalities refuse to provide services, PWGSC will assist DND personnel in negotiations with municipalities and will adjust grants, where applicable, in accordance with the Municipal Grants Act. The Department indicates that it will monitor the results, evaluate the savings, and modify the process, as required.

The Committee finds this new approach interesting and is anxious that it produce positive results. Accordingly, the Committee recommends:

That the Department of National Defence report to the Committee on the results of its review of the new procedures that have been developed to improve communications between it and Public Works and Government Services Canada on matters of grants in lieu of taxes and municipal services. This report should be submitted by April 1996.

Grants in lieu of taxes are paid by Public Works and Government Services Canada and are not charged directly to the budgets of the facilities for which these payments are made. The Committee believes that this arrangement blurs accountability and deprives base commanders of an important piece of cost information needed to manage their resources properly. The Committee therefore recommends:



That steps be taken to charge grants in lieu of taxes directly to the budgets of the DND facilities for which these grants are paid.

The Committee is also concerned that although base commanders have been instructed to eliminate duplications when their bases provide a service that is available from a municipality, they do not have complete control over this part of their budget. If excess costs in this area are to be eliminated, this must change. Therefore the Committee recommends:

That the Department of National Defence transfer greater control of base expenditures for municipal-type services to base commanders.

That the Department inform the Committee by January 1996 what new responsibilities have been transferred to base commanders.

## VI Conclusion

At the conclusion of the Committee's hearing on 04 April, the Auditor General testified that it would be difficult for him to guarantee that the efforts the Department have undertaken to respond to the Committee's observations would solve all the problems raised by his Office (33:52). He also told the Committee, at the outset of the meeting, that his Office is shifting its emphasis to audit departmental projects while they are in the development stage and report on its findings.

The Committee welcomes this change in emphasis and believes that it would be particularly useful in the case of the Department of National Defence. The Committee is convinced that if the Department is to provide the services expected of it within budget, it must act quickly to make the changes called for by the Auditor General and in this report. Although DND shows a general willingness to do this, the Committee remains unconvinced — based on the Department's past record and the Auditor General's own reservations — that the Department will be able to accomplish the goals that have been set for it within the short amount of time that is available.

The Committee is therefore persuaded that it is essential to the Department's chances of success that the Auditor General not wait to assess the viability of its actions until they have been completed but that his Office audit DND's management renewal projects as they are being developed and implemented. The Committee therefore recommends:

That the Auditor General monitor, on an ongoing basis, the efforts of the Department of National Defence to reform its management structures and practices, management information systems, information technology, and infrastructure rationalization and management, and that he report his findings when appropriate.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 28, 33 and 35 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,  
Chair.



# REPORTS TO THE HOUSE

Thursday, June 15, 1995

The Standing Committee on Public Accounts has the honour to present its

## THIRTEENTH REPORT

Pursuant to Standing Order 108(3)(d), the Standing Committee on Public Accounts has the honour to present its

### I Introduction and Background

As the agency of government that administers prison sentences and supervises offenders serving the remainder of their sentences in the community, the Correctional Service of Canada (CSC or the Service) is charged with responsibilities that are especially important and costly. In 1992–93 the CSC spent just under \$1 billion to maintain inmates incarcerated in federal prisons and to supervise offenders on conditional release.

Because of the considerable sums of public money allocated to the CSC and the significant role it plays in ensuring public safety, the Committee was anxious to examine those chapters of the Auditor General's Report dealing with this agency. Accordingly, the Committee held two meetings with the Auditor General and officials from the Correctional Service of Canada on 15 and 22 March to discuss chapter 16 (Custody of Inmates) and chapter 18 (Supervision of Released Offenders) of the Auditor General's 1994 Report.

### II Chapter 16: Custody Of Inmates

In 1992–93, the Correctional Service of Canada maintained an average population of 12,500 prisoners in 43 penitentiaries located across Canada. In Part III of its 1995–96 Estimates, the CSC projects that the size of the prison population will grow by 24.5% over the next five years (1994–95 through 1998–99). This growth will occur at a time when federal prisons — at a current average age of 41 years — are aging quickly.

The CSC indicates in the Estimates that it is responding to these projections through “over-utilization by up to 25% of total institutional design capacity” — i.e. putting two prisoners in a cell designed for one, or “double bunking,” planning for new, renovated or retrofitted accommodation based on the use of shared accommodation (cells designed for multiple occupancy), increased use of Exchange of Service Agreements with the provinces (i.e. obtaining space in provincial institutions), and transferring prisoners to institutions in other regions.

The CSC's program objective is

To contribute, as part of the criminal justice system, to the protection of society by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure, and humane control.

If the CSC is to meet its program directive, if it is to protect society while exercising control over inmates that is “reasonable, safe, secure, and humane,” it must be able to cope with the challenge presented by a rapidly growing population in its prisons. The consequences, if it cannot, are serious. As the Commissioner of Correctional Services told the Committee with regard to prison accommodation, he believes that CSC is “facing downstream a crisis, and it's not that many years away” (30:33).

In his Report, the Auditor General acknowledges that

Correctional Service is aggressively working to streamline its administrative functions and to reorient the way it houses inmates. (16.13)

However, if the Service is to avert an accommodation crisis there are two objectives in particular that it must accomplish. First, it must have in place a properly designed inmate security classification system. Among other things, this system would allow the CSC to make the best use of existing facilities and plan more accurately for future needs. It would also make an enormous contribution to the protection of society. Secondly, the process used to plan accommodation for the long term must be sound and based upon the best information available. Accordingly, the Committee focused its attention in these two areas.

### **The Inmate Security Classification System**

In order to minimize the risk posed by inmates to society, correctional staff, and other prisoners, offenders are assigned to three basic kinds of institution, each providing different levels of security. Since the cost of maintaining an offender rises with each increased level of security, it is important to assign prisoners to the appropriate institution in order to control costs as well as to minimize risk. To assign offenders to the right institution, the CSC relies on two kinds of assessment. An initial evaluation takes place when an offender first enters the system and subsequent assessments are done periodically during incarceration.

The CSC uses an instrument known as the Custody Rating Scale (CRS) for initial assessments. The scale makes use of data that is objective and verifiable. However at the time of the audit, the use of the scale was not mandatory throughout the system. When it was used, it was not always applied in a consistent manner, suggesting that staff needed better information and training in its use.

Inconsistent application of the rating scale has important consequences. While escape problems are generally under control, the escapes that do occur could be further reduced by proper use of the Custody Rating Scale. For example, a 1992 CSC study of escapes from minimum–security prisons in Ontario concluded that 60 percent of them could have been prevented by proper use of the CRS since the scale would have classified and placed the inmates in medium security prisons. The rating scale can thus play a key role in ensuring public safety. It can also help control costs by ensuring prisoners are sent to institutions that match the risk they pose.

The CSC indicates that it has now trained its staff in the use of the CRS as part of Risk Assessment Training. The Custody Rating Scale, as an element of the Offender Intake Assessment, is also being introduced in an automated form nationally. The Committee welcomes these initiatives but believes that further steps must be taken. Therefore the Committee recommends that

That use of the Custody Rating Scale be made mandatory for initial inmate security classification in all federal penitentiaries.

The Committee welcomes steps to train staff in the use of the scale. However, the CSC indicates that this training took place between October 1994 and March 1995. The Committee believes that such training is too important to occur simply on a one–time basis. The CSC should, from time to time, assess its staff's knowledge and use of the CRS. Such monitoring should help the CSC determine whether or not the scale will need revision or if additional staff training is necessary. If additional training is needed, it should be provided. Therefore, the Committee recommends

That the CSC assess, on an annual basis, the needs and level of understanding of its staff with regard to the application of the Custody Rating Scale, and provide additional training as needed.

The AG reports finding “an unusually high number of overrides,” a situation that occurs when prisoners are assigned to facilities that do not match their initial security classification. While overrides sometimes occur for legitimate reasons, a high number of them suggests that the security classification system may need to be changed. The Committee welcomes, therefore, the CSC’s intention to evaluate its offender intake assessment system.

The CSC has committed itself to providing the Committee with an interim report on the results of its evaluation of the offender intake assessment system in September 1995. A final report will be provided to the Committee by the end of March 1996. From the Committee’s perspective this review is essential and should be conducted on a regular basis to ensure that the offender classification system continues to be relevant and effective. The Committee therefore recommends

That the CSC review its inmate classification system every five years and make changes to it as appropriate.

In addition to the initial evaluation that takes place, inmates are also assessed periodically while incarcerated. Depending on the results of these evaluations, inmates may be transferred to lower-level security institutions where the costs of maintaining them are lower. Care must be taken, however, not to move inmates to institutions that do not correspond to their classification levels.

The AG indicates that the reclassification process is, in contrast with the initial assessment, qualitative in nature and relies almost entirely on the judgement of individual case management officers. As a consequence, the audit found that inmates with similar risk factors had been reclassified and placed in prisons with different security levels. The Committee therefore welcomes the CSC’s plans to proceed from revalidating its Custody Rating Scale to creating a new reclassification system. In addition, the Committee recommends

That in creating a new reclassification system, the CSC develop a system that is fully compatible with the Custody Rating Scale and more quantitative in nature.

When prisoners are kept in institutions whose security level falls below the level of risk they pose (“underplacement”), public security is jeopardized. If they are housed in institutions that are above their classification (“overplacement”), the costs of maintaining them are higher than need be. CSC managers should have information on underplacements and overplacements so that they can make operational adjustments in order to control capital costs and operating expenses. However, the AG discovered that the CSC was not collecting this data. Although the CSC says that it will be able to do this when its computerized management information system becomes fully operational, the Committee believes that there is a need to act with some urgency in this regard. Accordingly, the Committee recommends

That Correctional Service of Canada implement a computerized management information system immediately and use this system to track information on underplacements and overplacements.

Finally, the Committee believes that information obtained from the classification system should be used when the CSC plans its accommodation needs for the future. Therefore, the Committee recommends

That the CSC use the information obtained from monitoring the Custody Rating Scale and the reclassification process in its long-term accommodation planning.

### **Inmate Accommodation Planning**

As noted, the population in federal prisons is projected to grow rapidly over the next five years. While the Committee recognizes that the CSC has limited control over the size of its prison population, the Committee believes that within those limits the CSC could do a better job of planning its future accommodation requirements. Two



issues in particular stand out as concerns of the Committee: the use of double bunking to accommodate more inmates in existing prisons and the lack of cost–benefit studies when planning to meet future accommodation needs.

### **Double Bunking**

Between 1986 and 1993, the CSC’s inmate population grew from 10,500 to 13,200, yet its cell capacity increased only from 11,656 to 12,061. To cope with the shortage of space, the CSC resorted to double bunking. The rate of double bunking has increased from 7% of the population in 1986 to 24% in 1993.

Double bunking can save money. The AG reports that the CSC has avoided a potential expenditure of about \$240 million in one–time future capital costs and has been able to reduce operating expenses by about \$60 million each year through double bunking.

The Committee is concerned, however, about the other implications of double bunking inmates. Until recently, the CSC’s philosophy dictated that there only be one prisoner per cell. As a result, it did not have programs or procedures in place to support double bunking. As the Commissioner of the Correctional Service admitted during the Committee’s hearings, the CSC “was driven into double bunking rather than it being a conscious policy decision.” (30:12) He then went on to acknowledge that his agency “does not know the long–term impact of double bunking.” (30:12)

The Service now has a set of accommodation policies and standards that encompass double bunking and shared accommodation (housing prisoners in cells designed for multiple occupancy). The Committee was also told that a task force in operation between February and late fall of 1994 has helped develop some policy guidelines on double bunking and that the CSC is now keeping close watch on the practice. However, the Committee remains concerned that the practice may have serious negative impacts that put at risk the safety of prison staff and the inmates themselves. The Committee is also concerned about the potential impact of this practice on the behaviour of offenders once incarceration has ended. As a consequence the Committee believes that a more formal observation and review process for double bunking is needed. The Committee therefore recommends

That the CSC monitor, on a continuing basis, the application of its double–bunking policy, that it conduct periodic reviews of that policy, and make appropriate adjustments to the policy when indicated.

### **Cost–Benefit Analyses to Support Accommodation Planning**

As the CSC states in its Estimates, it has several choices when planning for its future accommodation needs. It may build new facilities, renovate or retrofit existing ones, or it may lease space from the provinces through Exchange of Service Agreements.

The Auditor General reports that of the options available, the CSC has tended to retrofit existing institutions to meet its accommodation needs. Although studies elsewhere have shown that retrofitting is often more expensive than building new facilities, this option may, under certain circumstances, be the best one. However, the CSC does not produce life–cycle cost–benefit analyses to support its decisions to retrofit facilities. This is contrary to both the CSC’s policy and Treasury Board’s.

In the absence of cost–benefit analyses, it is impossible to assert with any accuracy that the choice of one option over another is the most appropriate one. In response to the Committee’s questions, Mr. Edwards replied that his agency is now engaged, in conjunction with Treasury Board, in a study to develop cost–benefit analysis. In light of the Auditor General’s indication that the CSC is currently contemplating the retrofit of several prisons without conducting the required life–cycle cost–benefit analyses, the Committee does not believe that a commitment to study the issue is sufficient; more assertive action is required in order to ensure that the best decisions are taken. Therefore, the Committee strongly recommends



That the CSC adhere immediately to Treasury Board's and its own policies by conducting life-cycle cost-benefit analyses before determining which course of action it will take to respond to its long-term accommodation needs.

Furthermore, the Committee recommends

That the CSC not construct or retrofit any facilities until it has conducted the necessary life-cycle cost-benefit analyses.

### **The Control and Direction of Accommodation Planning**

According to the Auditor General, no one individual or unit within the CSC is responsible for future accommodation planning. The CSC offered no formal response to this suggestion but in a document sent to the Committee on accommodation policy and standards, it is stated that "the Commissioner shall direct the overall accommodation policy."

The Committee believes that accommodation planning needs better overall co-ordination. There is, as well, considerable benefit in terms of accountability in having one senior official who is in charge of managing this activity. Therefore, the Committee recommends

That the CSC appoint a senior officer to manage and take responsibility for all future accommodation planning.

### **Administrative Costs**

The Auditor General indicates in his report that the CSC is taking steps to reduce its administrative costs. In July 1993, the Service launched a comprehensive review of all areas of its management, administration and operations: this review is expected to result in changes that will save about \$83 million.

According to the AG, the average direct cost of maintaining an inmate in a federal prison in 1992-93 was about \$48,000. If other costs are factored in, the average cost per inmate could go as high as \$80,000. The Committee notes that a significant proportion of these additional indirect costs can be accounted for by administrative expenses. The Committee firmly believes that every effort must be made by the CSC to reduce administrative expenditures while endeavouring to maintain the quality of programs aimed at prisoner rehabilitation and staff training. The Committee feels that effective prisoner rehabilitation in particular offers an important key to preventing recidivism once offenders have been released. Accordingly, the Committee recommends

That in its attempts to reduce costs, the CSC find savings in the area of administration in order to preserve, as much as possible, funding available for other activities such as staff training and inmate rehabilitation.

The Committee notes that the CSC is cutting back on rehabilitative programs such as CORCAN that have the added potential of generating revenue for the prison system. Mr. Edwards admitted that these programs are valuable, telling the Committee that it is

"absolutely essential, particularly with overcrowded facilities, that we find useful things for inmates to do. There are few things that are more useful than in fact learning work skills and producing a product." (30:21)

The Committee agrees and is concerned that these kinds of programs not be reduced. The Committee therefore recommends

That the CSC maintain rehabilitative programs, such as CORCAN, that occupy inmates' time constructively while teaching them useful skills and generating revenue for the prison system.

### **Legislative Change Affecting Prison Population**

The Committee recognizes that the CSC has little control over the size of the population in its prisons. Other elements of the Canadian criminal justice system such as the courts and the National Parole Board are more directly involved in influencing the numbers of offenders that are incarcerated. Acts of Parliament such as the Corrections and Conditional Release Act, proclaimed into force on 1 November 1992, also have an important impact on the size of prison populations.

Currently, the government is considering changes to the Criminal Code that may have an impact on the number of inmates being housed in federal institutions. While these changes may be desirable, the Committee believes that they should be informed by a consideration of their potential impact on the Correctional Service of Canada. Therefore, the Committee recommends

That in drafting changes to the Criminal Code or other pieces of legislation that may have an impact on the size of the inmate population in federal institutions, the government closely consult the Correctional Service of Canada so that the impact on the Service can be evaluated and planned for.

## **III Chapter 18: Supervision Of Released Offenders**

In addition to maintaining inmates in the penitentiary system, the CSC is also responsible for supervising offenders who are serving the remainder of their sentences in the community. In 1992–93, the Agency was responsible for about 22,000 offenders, about 9,500, or 40 percent of whom were on day parole, full parole, or statutory release in Canadian communities. During that period, the CSC spent about \$125 million, or 13 percent of its total budget on community supervision. The average annual cost of supervising an offender in the community was \$9,500.

While community supervision — as opposed to incarceration — is conducted at a modest cost to the Canadian taxpayer, the risks to public safety are high. As the Auditor General points out in his Report:

Supervision in the community is the final point at which the Canadian justice system can directly influence or control offenders. Offenders are the least separated from the public and therefore present the greatest risk to society. (18.8)

The manner in which the CSC fulfils this aspect of its mandate is, therefore, of enormous importance. When things go wrong while an offender is under community supervision, the consequences are often quite serious. Each year, between 110 and 160 federal offenders being supervised in the community by the CSC are sent back to federal penitentiaries because they have been charged with a violent crime — such as murder, rape, or assault — against another person. While this represents only a small portion of the offenders on community supervision, every incident represents a tragedy for all involved — and, in the Committee's view, a tragedy that might have been prevented. Any reasonable measure that could prevent individuals on community release from reoffending violently should and must be taken.

If the CSC is to fulfil its responsibilities in this area, several conditions must be met. High-risk offenders — those most likely to reoffend violently — must be accurately identified prior to release into community supervision. Parole offices must have sufficient resources to supervise high-risk offenders adequately. Practices for managing high-risk offenders on community supervision must be sound and — within reason — uniform throughout the system. Finally, the system as a whole must be able to recognize its failures and successes and to learn from them.

Community supervision of released offenders — especially those who present a high risk to public security — is of such vital importance that the Committee was deeply disturbed to learn that not all of the conditions for safe supervision just listed were being satisfied fully.

### **Identifying High-Risk Offenders**

A first step in ensuring that high-risk offenders are adequately supervised while on community release is to ensure that they have been identified before they leave the prison system. Although it will never be possible to identify all high-risk offenders in advance of release, every attempt to do so must be made. Efforts currently being undertaken by the CSC coupled with action on the recommendations contained in the Auditor General's Report and in this report should help ensure that this happens.

However, the Committee was deeply concerned to discover that vital information does not always reach parole supervisors before released offenders leave prison. For example, an official from the Auditor General's Office told the Committee that auditors "found situations where people were sent to the parole office from institutions without adequate data on,...., the criminal history record, the photograph." (31:15) That this should happen is simply not tolerable. Therefore, the Committee recommends strongly

That the CSC ensure that parole supervisors have a complete package of information, including court and criminal history records, photographs, and risk assessments, on offenders who are to be released into the community at least one full week before they leave the penitentiary system.

In addition, the Committee recommends

That the CSC designate a full-time senior officer responsible for ensuring that complete packages of information on offenders are assembled prior to their release and that they reach parole supervisors in a timely fashion.

Because the Committee believes that this is an urgent problem requiring decisive action, it also recommends

That the CSC report to the Committee in September 1995 on the action it has taken to make sure that complete information on released offenders is provided to parole supervisors before release occurs.

### **Allocation of Resources**

The Committee is particularly concerned that once offenders have been released into the community, parole offices and staff have sufficient resources to give them adequate supervision. Evidence presented by the Auditor General, however, shows that this is not the case.

The audit revealed that there were wide variations among parole offices in terms of the amount of time that is available for the direct supervision of offenders. This indicates that some offices do not have adequate access to the resources needed to do an adequate job. The AG's conclusion in this respect is a source of great concern. He states, in his Report, that:

the resources available to manage a given level of risk vary significantly among parole offices. Accordingly, the risk to the public may be greater in those areas with relatively fewer resources. (18.48)

In response to the AG's observations about resource imbalance, the CSC indicated that it has had a project under way since June 1994 to establish workload determinants. This project was expected to produce a staff resourcing method to guide a more effective, correctionally based distribution of resources. Approval for the method



was expected by the end of 1994. However, it is clear from a letter sent to the Committee by Mr. Edwards in May that this has not happened yet. The Committee views the situation as an extremely serious one and therefore recommends

That the CSC take immediate steps to correct the imbalances that exist in the level of resources being provided to its parole offices. In particular, a special effort should be made to match resources according to office workloads of high-risk offenders.

### **Parole Supervision Practices**

While it may be advisable to allow parole offices a degree of flexibility in determining how best to supervise their caseloads, having a core set of supervision practices is also necessary. In particular, for high-risk individuals, parole supervisors should have access to a set of commonly accepted professional practices for managing offenders.

However, the audit showed that there were no such practices applied consistently throughout the system. Wide differences were found, for example, in the way sex offenders under community supervision were treated. To compound matters, the audit also discovered that the Service did not have information on the performance of its various offices and their initiatives and was thus unable to determine which local practices were working and which ones were not. Such information could, if available, be used to build a set of common practices for managing high-risk offenders.

The Committee believes that it is not possible to hold parole supervision staff fully accountable unless they have a common set of practices to guide them. Furthermore, the existence of such a set of practices would, the Committee believes, help reinforce public security. The Committee therefore recommends

That the CSC develop and implement a set of commonly accepted professional practices for managing offenders on community supervision, in particular for high-risk offenders. In developing these practices, the Services should determine which local initiatives have been most successful.

### **The Capacity to Learn from Success and Failure**

In order to succeed and survive, all organizations need to learn from their successes and failures. The audit, however, showed that the CSC is lacking in this capacity when it comes to supervising offenders released in the community. The Committee believes that developing such a capacity is essential and therefore recommends

That the CSC actively monitor the performance of its parole offices, recording results and communicating instances of best practices to all offices in the system.

### **Parole Supervision by Non-profit Agencies**

Not all community supervision is done by CSC staff. Each year, the Service contracts some supervision work out to non-profit agencies such as the John Howard Society and the Elizabeth Fry Society. The services provided by these agencies greatly assist the CSC in fulfilling its mandate. As the Commissioner of Correctional Services, Mr. John Edwards, told the Committee, “in some parts of the country we [the Service] rely heavily on non-CSC staff to do the supervision.” (31:9)

During the meeting of 21 March, the Committee learned that supervision services can often be supplied by these agencies at less cost than if the CSC were to provide the service directly. Mr. Jean-Claude Perron, Assistant-Commissioner, Quebec Region, indicated that



“the cost of supervision by a social agency such as the John Howard Society or any other non-profit agency, is \$5.84 a day. In the case of the Correctional Service, it is \$8.13.” (30:20)

Mr. Perron went on to state that “the public systems are costlier than the non-profit private sector services.”

In light of these statements, and in light of the budgetary constraints that the CSC, like all other government departments and agencies, must face, the Committee would have expected that more emphasis would be placed on engaging non-profit agencies to deliver parole supervision services. The Committee was therefore astonished to learn from Commissioner Edwards that the CSC has been cutting all its contracts with these agencies over the last year or so. (30:19) The Commissioner indicated that this was so because the workforce adjustment directive prevented the Service from reducing its own staff; budget reductions therefore meant reducing contracts to the agencies.

The Committee questions the wisdom of this course of action given the cost advantages in contracting non-profit agencies such as the John Howard Society to provide parole supervision services. The Committee also notes that the workforce adjustment policy is currently under review. Accordingly, the Committee recommends

That the CSC examine how it can deliver better, more effective parole supervision at a lower cost to the taxpayer; this examination should involve a reconsideration of the CSC's apparent policy of reducing reliance on non-profit agencies.

Furthermore, the Committee recommends

That as part of this examination, the CSC conduct a cost-benefit analysis that compares its delivery of parole supervision services with that of non-profit agencies and report the results to the Committee no later than May 1996.

### **The Control and Direction of Community Supervision**

One of the Auditor General's central conclusions was that the CSC's senior directors were not devoting sufficient attention to the Service's responsibilities for community supervision of released offenders. Certainly the evidence presented by the audit supports this conclusion. The lack of common supervision practices, imbalances in the allocation of resources among parole offices, and failure to communicate adequate information on released offenders to parole offices in a timely fashion all suggest that CSC management is not paying enough attention to this aspect of its duties.

In his Report, the Auditor General recommends that the CSC remedy this situation by appointing a senior official to manage improvements to parole supervision practices. The CSC has responded by naming — for a two-year trial period — senior advisor on Community Corrections. This advisor will function, in the words of Mr. Edwards, as the Commissioner's “top staff specialist on community corrections.” (31:8)

The Committee believes that given the serious nature of the challenges facing the CSC in the area of community supervision, this measure is far too timorous: something much more substantial is needed. A senior officer of the Service needs to be clearly responsible for making improvements to the parole system; this will require a full-time effort and will involve much more than simply acting in an advisory capacity. This degree of authority will be necessary to overcome an institutional mindset that relegates community corrections to a second order of importance. Therefore the Committee recommends

That the CSC appoint a full-time senior official to manage improvements to the parole supervision system and to parole supervision practices.

## Conclusion

If the CSC is to fulfil its mission protecting society by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure, and humane control, then it must act quickly to address the problems brought to light in these chapters of the Auditor General's Report. The AG recognizes that the Service is implementing several initiatives to do precisely that. However, there are grounds for concern as to whether or not the CSC will be able to do so successfully.

In chapter 18 of his Report, the A.G. observes that the Service "has an uneven record in implementing changes to management practices." (18.44) Thus, although the CSC has shown a desire to make the necessary improvements, vigilance will have to be exercised in order to ensure that the Service succeeds. In keeping with the new emphasis being placed by the Office of the Auditor General on monitoring the efforts of departments and agencies as they are being developed, the Committee recommends

That the Auditor General monitor the efforts of the Correctional Service of Canada to improve its accommodation planning and supervision of released offenders and to report his findings when he considers it appropriate.

Lastly, the Committee believes that the recommendations contained in its report must be pursued vigorously. Accordingly, it recommends

That, unless where otherwise specified, the CSC report to the Committee on the progress that it has made in implementing the recommendations contained in this report by May 1996.

Pursuant to Standing Order 109, your Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 30, 31 and 35 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,

Chair.

## DISSENTING OPINION OF THE OFFICIAL OPPOSITION

### 13TH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

### CHAPTERS 16 AND 18 OF THE 1994 AUDITOR GENERAL'S REPORT

### CORRECTIONAL SERVICE OF CANADA

We, the Bloc Québécois Members on the Standing Committee on Public Accounts, consider the majority report signed by the Committee to be incomplete and disappointing. Against all expectations, the majority report makes no mention of the crisis currently gripping the federal correctional service, in spite of the evidence heard. The Bloc Québécois felt it was extremely important to present a dissenting opinion, the focus of which is the double bunking policy and the crisis looming within the Canadian correctional system.

#### **Double bunking policy**

Witnesses testifying before the Committee expressed numerous reservations about the effectiveness of the correctional service's policy of double bunking inmates. Back in 1986, the Correctional Service of Canada (CSC) had criticized this practice, deeming it "unacceptable". However, in its 1995–96 budget, CSC stated that it would opt for double bunking as a means of alleviating the problem of the rapid increase in the prison population. Between 1986 and 1993, the rate of double bunking increased from 7 per cent to 24 per cent of the overall inmate population, and there is every indication that the rate will continue to rise.

CSC Commissioner John Edwards acknowledged that double bunking was used solely to satisfy economic imperatives. CSC admits that it does not have any data on the long-term impact of this practice on inmates in particular on the rehabilitation level. In response to questions from members of the Committee, Mr. Edwards argued that the shared accommodation policy was justified, referring in the process to U.S. studies by the General Accounting Office in Washington which concluded that this practice had no negative impact on inmates. However, Mr. Edwards did admit that the results of these studies were inconclusive in light of the fundamental differences between the U.S. and Canadian correctional systems which make it difficult to draw comparisons. For his part, the Auditor General observed that these studies had not assessed the long-term impact of shared accommodation on correctional operations. Furthermore, it should be noted that the Canadian Criminal Justice Association and the United Nations respecting inmate accommodation call for inmates to be housed in separate cells.

In the opinion of the Bloc Québécois, the policy of double bunking inmates in cells designed in most cases for one person cannot be applied solely to save money in the short term. The consequences of the shared accommodation policy could be and we believe that this policy should not be pursued any further until the short-, medium- and long-term effects are analyzed.

For this reason, we recommend:

"That the Correctional Service of Canada assess the short-, medium- and long-term impact of the policy of double bunking inmates, particularly the effect of the policy on inmate rehabilitation, and that the results of the study be published by January 1996."

"That the Correctional Service of Canada await the results of this study before making the double bunking policy part of its accommodation standards".

#### **Crisis looming within the Canadian correctional system**

The Bloc Québécois recognizes that CSC has very little control over the size of the inmate population. Year after year, the prison population continues to grow and the federal government does not appear to be very concerned about the problem, either when it brings in or when it amends legislation.



To counter the problem of overcrowding in penitentiaries, the government can pursue one of two available options; build new prisons or reduce the size of the prison population. The Bloc Québécois believes that the second option warrants more in-depth consideration and encourages the federal government to examine the measures being considered by the provinces, measures which, among other things, call for community sanctions for non-violent offences. According to the CSC Commissioner, if the federal government does not act quickly, "we will have a full-blown crisis on our hands within the next few years". The Bloc Québécois concurs with this view. The increasing size of the prison population and aging facilities constitute a major problem, one that the federal government must move immediately to address.

Therefore, the Bloc Québécois recommends:

"That the federal government table reform proposals for the Canadian correctional system by the fall of 1996. The government shall hold public hearings by January 1996 in order to define necessary measures to reduce overcrowding in federal penitentiaries".

The Bloc Québécois wishes the Committee had shown greater determination in the face of the crisis looming within the Canadian correctional system and that it had addressed this contentious issue in its majority report.

Ottawa, Thursday, June 15, 1995

Richard Bélisle

Gilbert Fillion

René Laurin



## REPORTS TO THE HOUSE

Friday, June 16, 1995

**The Standing Committee on Public Accounts has the honour to present its**

### **FOURTEENTH REPORT**

Pursuant to Standing Order 108(3)(d), your Committee has considered Chapter 12 of the 1994 Report of the Auditor General (Aspects of Federal Real Property Management).

#### **I Introduction and Background**

The federal government's real property holdings are extensive: a 1985 estimate placed their total value at between \$40 billion and \$60 billion. As the federal government endeavours to reduce its deficit, and streamline and improve delivery of its programs, sound management of these holdings becomes more crucial than ever. Tough decisions will have to be made regarding which properties will be retained and which ones will be divested or rationalized. Properties that are kept will have to be well-managed in order to ensure that they are put to the best use possible at the lowest cost to taxpayers. Thus in light of the enormous value of federal real property and the care with which it needs to be managed, the Committee was anxious to examine chapter 12 of the Auditor General's 1994 Report on aspects of real property management.

The Committee has already held hearings on several chapters of the 1994 Report that involve issues related to real property management. Chapters 26 and 27 revealed problems with the Department of National Defence's management of its infrastructure holdings. Chapter 16 showed that Correctional Service Canada does a poor job of planning future accommodation for inmates entering Canada's penitentiary system. In both of these instances, the Committee has produced reports whose recommendations, together with those made by the Auditor General, should enable these departments to manage their property holdings more effectively.

However, these chapters of the Auditor General's Report, together with two others [Chapter 22 (Foreign Affairs: Financial Management and Control), and Chapter 34 (Public Works and Government Services Canada: Management and Operation of Crown-owned Office Buildings)] demonstrate that property management problems are not simply confined to individual departments but are generalized throughout government. This strongly suggests that there is a lack of adequate central co-ordination and oversight of the federal government's real property holdings.

Accordingly, on 2 May 1995, the Committee met with the Auditor General and witnesses from Treasury Board Secretariat (TBS). TBS is responsible for co-ordinating the management of real property across government. Within TBS this function is carried out by the Bureau of Real Property and Material (Real Property Bureau). Departments, for their part, are required to manage property holdings within the framework provided by Treasury Board policies as set out in the Real Property volume of the Treasury Board Manual.

#### **II Observations and Recommendations**

As a consequence of studying this issue, the Committee has determined that TBS needs to strengthen its role in co-ordinating and monitoring the property management techniques and practices employed by departments. The following observations and recommendations are designed to help ensure that this happens.

Treasury Board Secretariat is responsible for co-ordinating the maintenance of information on the federal government's real property holdings. This needs to be done both for purposes of accountability and sound long-term

management. However, the AG found that some of this information was badly out of date and that its overall quality was variable. He also found that the information systems used by departments to record data on their property holdings were not integrated with one another, a situation that TBS is remedying.

The Committee believes that TBS must exercise a more assertive leadership and monitoring role with regard to the way in which departments manage their properties. A fundamental step involves making sure that property data kept by departments is timely and accurate. Accordingly, the Committee recommends

That Treasury Board Secretariat take immediate steps to assess, on a regular and consistent basis, the adequacy of departmental information systems on real property holdings and that the data contained in them is up-to-date. For example, departments should be able to inform TBS within two months when one of their buildings has become vacant.

While departments are individually responsible for the administration of the property they hold, Treasury Board Secretariat needs to know whether or not departments are fulfilling this responsibility adequately. However, the mechanisms that are in place for enforcing this accountability are inadequate. The Committee therefore recommends

That Treasury Board Secretariat design and implement a review process for departments and agencies of government that focuses exclusively on the real property assets required for program delivery.

At a time when all departments must find ways of operating within smaller budgets, it is important for them to be able to dispose of properties that are not needed for program delivery. The Committee was thus disturbed to learn that disincentives discourage them from doing so. For example, departments are not charged the full costs of holding property and therefore do not always consider disposal as a means of saving money. In addition, it is sometimes difficult for departments to obtain permission to keep some of the revenues from disposals. The Committee believes that all possible steps should be taken to encourage departments to divest surplus properties. Accordingly, the Committee recommends

That Treasury Board Secretariat develop incentives to encourage the disposal of unneeded properties. In particular, ways must be found of charging the full costs of holding property to departmental budgets.

Treasury Board Secretariat needs to be more actively involved when departments develop their long-term capital plans. The Committee discovered, for example, that Correctional Service of Canada was not conducting life-cycle cost-benefit analysis as part of its accommodation planning process — directly contrary to TBS policy. A similar situation exists at the Department of National Defence which has not been following aspects of TBS policy on capital investment. It is unacceptable to the Committee that TBS not enforce its own policies in this area. The Committee therefore recommends

That Treasury Board Secretariat actively challenge departmental submissions and long-term capital plans that do not conform with TBS policies in order to ensure that due regard to economy is achieved.

A particularly disturbing finding that emerges from the AG's report is that the federal government is unaware of the long-term budgetary implications of complying with health, safety, environmental, and heritage laws and regulations. Because the Committee is deeply concerned about this, it recommends

That Treasury Board Secretariat estimate, with help of the departments, the long-term costs of complying with federal and provincial laws and regulations on health, safety, the environment, and heritage; and

That the departments be required to include information on the long-term costs of complying with these laws and regulations in Part III of their annual Main Estimates.

Treasury Board Secretariat and the departments have identified several cost-saving measures that would reduce the annual operating costs for managing real property. The Auditor General estimates total annual savings would amount to over \$1 billion. The Committee believes that these measures should be implemented and that the search for additional savings should be pursued. Accordingly, the Committee recommends

That the cost-saving measures identified by TBS and the departments to reduce annual operating costs for real property be implemented on a priority basis and that TBS encourage departments to design and carry out further similar measures.

### **III Conclusion**

After carefully examining the policies and objectives that are set out in Treasury Board Secretariat's Real Property Manual, the AG found that they satisfied the requirements for the management of the government's real property. However, he concluded that, based on his audit, insufficient attention is given to ensuring that the federal government's real property is managed in accordance with Treasury Board policies. (12.33)

The Committee agrees that many of the problems associated with real property management could be solved if Treasury Board's policies were enforced. Accordingly, the Committee recommends

That Treasury Board Secretariat adhere to and enforce the policies and objectives that are set forth in its Real Property Manual.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the *relevant Minutes of Proceedings (Issues Nos. 34 and 35 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,

Chair.



## REPORTS TO THE HOUSE

Thursday, June 22, 1995

The Standing Committee on Public Accounts has the honour to present its

### FIFTEENTH REPORT

Pursuant to Standing Order 108(3)(d), your Committee has considered Chapter 6 of the May 1995 Report of the Auditor General (*Federal Transportation Subsidies — The Atlantic Region Freight Assistance Program*).

#### **I Introduction**

The Atlantic Region Freight Assistance Program (ARFA) is one of the largest of the direct non-passenger-related subsidies paid by the federal government. In 1993–94, \$106 million was spent on this program. In the 1995–96 Budget, the government announced that the ARFA subsidies are being eliminated as of 01 July 1995.

On 11 May 1995, the Auditor General tabled his first additional report to Parliament pursuant to amendments that were made to the Auditor General Act in June 1994. On May 11, the AG also alerted the Committee, through a letter to the Chairman, that some issues dealt with in his Report warranted a higher priority than others. One of the chapters that the AG singled out for urgent attention focused on the Atlantic Region Freight Rate Assistance Program.

In light of the AG's concerns, the fact that this program has cost taxpayers substantial amounts of money, and that its termination date is fast approaching, the Committee decided to investigate this issue without delay. Accordingly, a meeting was held with representatives from the Office of the Auditor General, and senior officials from Transport Canada and the National Transportation Agency on 6 June 1995. Because the Committee may wish to explore this subject further, it wants this report to be considered as an interim one.

#### **II Background**

The Atlantic Region Freight Rate Assistance Program (ARFA) provides subsidies for most commodities moving by rail or truck within Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island, and the Magdalen Islands and that portion of Quebec that is south of the St. Lawrence River and east of Quebec Highway 173 (the highway that connects Levis, Quebec with U.S. Route 210 in Maine). This area is known as the "Select Territory." The program also subsidizes westbound freight movements out of the Select Territory (hereafter referred to as "the Territory") to the rest of Canada.

Subsidies are delivered under three major subprograms of ARFA. The Basic Westbound subsidy is paid on all westbound movements out of the Territory; the Selective Westbound subsidy is paid in addition to the Basic Westbound for the westbound movement of commodities that were grown, harvested, or manufactured within the Territory; and the Intra-regional subsidy, paid on all movements within the Select Territory.

Subsidies are paid as a percentage of the freight charges for eligible movements within the Territory. The maximum subsidy rate for the Basic Westbound is 28.5 percent. The Selective Westbound subsidy, paid on certain select goods, is 20 percent in addition to the Basic Westbound subsidy for a total of 48.5 percent. Carriers can collect an additional 1.5 percent fee to cover their filing costs. The rate for the Intra-regional program is 8 percent.



Management of the program is split between the Department of Transport which has policy responsibility and the National Transportation Agency (NTA) which is responsible for the program's administration and for the payment of subsidies. If the NTA encounters an administrative problem with the program that needs a change in the regulations, it is obliged to bring the matter to the attention of the Department of Transport.

### III Observations

The mechanics of the subsidization schemes under ARFA were designed within the context of a regulated transportation industry. Rates charged by carriers to their customers were established by provincial regulation and it was therefore appropriate to calculate subsidies as a percentage of those rates. Two events, however, significantly altered the environment within which the subsidy program operated.

Of the three subprograms that make up ARFA, only one, the Intra-regional, contained a provision prohibiting the payment of subsidies to carriers who are owned by shippers (known as "non-arm's length" relationships). In 1984, a federal court ruling limited the ability of the NTA to deny subsidies under the subprogram to carriers affiliated with shippers. The NTA subsequently informed the Minister of Transport, by letter in 1984 and 1985, of the possible implications of the court's ruling for the subsidy program. There is no record of a response, and no change was made to the regulations.

The significance of this inaction became evident after 1988. In that year, the trucking industry in the Territory was deregulated. Rates, previously set by provincial government regulation, now became governed by market forces. In terms of the ARFA subsidies, nothing changed: one regulatory mechanism was simply replaced by another. Market regulation works well where carriers compete with one another for the right to do business with shippers. However, the situation is significantly different when carriers and shippers are affiliated. In such a context, the ability of the market to restrain rates is distorted. Since ARFA subsidies were paid as a percentage of freight rates, the temptation for carriers to inflate the prices charged to affiliated shippers — and thus to obtain inflated subsidies — must have been enormous.

Evidence presented by the Auditor General in his Report shows that there is strong reason to believe that this is precisely what took place. An evaluation of ARFA completed by the Department of Transport in 1994 found that the revenue per tonne-kilometre of certain affiliated carriers was significantly higher than their non-affiliated counterparts. A study done by the AG found that the amount of business conducted by affiliated carriers receiving over \$100,000 in subsidy payments in 1992 had increased significantly over the last ten years. A comparison of the rates charged by affiliated carriers with those charged by other carriers between 1989 and 1992 showed that the rates of the former grew at considerably faster rate. The AG concludes from these observations that

the risk is significant that some carriers in the non-arm's length market are setting their rates to maximize the subsidy payable to them. (6.145)

The ARFA subsidies have been costing taxpayers over \$100 million annually since 1987; total payments since 1974 have cost the public purse \$1.7 billion in constant 1992 dollars. In light of this enormous cost and the fact that the subsidy program was clearly vulnerable to manipulation, the Committee wondered what was done by those who were responsible for the program — the Department of Transport and the NTA — to protect the interests of taxpayers.

The short answer is very little. As mentioned, the NTA twice wrote the Minister of Transport, in 1984 and again in 1985, to point out the implications of court rulings on non-arm's length relationships. The Minister did not respond. No further action was taken, either by the Department or the NTA. The situation was allowed to continue. This, in the opinion of the Committee, constitutes a serious violation of the responsibility that all public office holders — selected and non-elected — have to look after the interests of the Crown and protect the public purse.

Other signals were sent that should have alerted those in positions of responsibility that swift corrective action was required. In its 1987 Report, the Office of the Auditor General raised a number of concerns about the

administration of ARFA. The 1987 Report recommended, among other things, that the Department of Transport and the Canadian Transport Commission (as the NTA was then called), conduct an evaluation of the program and

improve administrative controls over the ... subsidy, including controls over program eligibility and better monitoring of adherence to program regulations. (1987, 13.101)

The Department finally responded to the first part of these recommendations by launching a program review in 1993.

Deregulation of the trucking industry within the Territory in 1988 should also have signalled to those in charge of the program that opportunities to abuse the subsidy program were being opened up and that changes were needed. As Ms Greene, Assistant Deputy Minister of Transport, invited the Committee to consider, "how sensible was it to have a program based upon a specific percentage of a rate once rates were deregulated." Yet the Department of Transport, the department with the policy responsibility for the program, appears not to have asked this question when rates were deregulated. Once again, nothing was done.

The situation was worsened by the fact that the NTA neglected to keep appropriate statistical data on the program and conduct an analysis of it. If it had done so after rates were deregulated by the provinces in 1988, the Agency would have discovered that the program was subject to abuse and was not meeting its objectives. It also might have found, as did the Department's 1993 evaluation, that rates were higher for subsidized traffic, by about 40 percent of the value of the subsidies. On the basis of sound data and a good analysis, the Agency could have advised the Department to either modify or cancel the program.

It is also clear that no concrete action was taken in response to the 1987 recommendation that administrative controls be strengthened. When the AG conducted his audit in 1994, he observed that

the Agency does not conduct any systematic assessment of the freight rates filed with it or of the rates filed with each movement as part of a claim for subsidy. (6.150)

The Agency argued, in response, that it did not have the authority to control rates — which is entirely different from checking to make sure that rates listed in claims are reasonable. When the AG endeavoured to determine whether or not the NTA had urgently sought the regulatory or legislative changes need to enable it to control the problem, he found instead that

the Agency asked that the Department of Transport amend the regulations to eliminate the carriers' ... obligation to file a rate when making a claim. (6.151) (permission was not granted to do this)

However, the most damning evidence of complacency on the part of the NTA comes in the form of legal advice given to the Department of Transport on 3 April 1995 regarding the extent of the Agency's authority to reject claims as unreasonable. Ms Moya Greene, an Assistant Deputy Minister with Transport Canada, informed the Committee on 6 June 1995 that the legal opinion from the Department of Justice Council to the Department

was to the effect that the agency has sufficient authority to reject claims as unreasonable, when acting in its capacity as a quasi-judicial tribunal to decide whether a claim is acceptable.

At the time of the audit, the Agency denied that it had this authority. It took a recommendation from the Auditor General to prompt the Agency to write to the Department of Transport to ask that it be given the authority to assess and reject claims. Now, it appears that the Agency has had this power all along.

#### IV Recommendations

Based on the legal advice given the Department, the Minister of Transport has instructed the Director of the NTA to exercise diligence in determining that claims are reasonable during the remaining months of the program. Mr. Doug Rimmer, Director General of the NTA's Marine, Trucking and Regional Offices, indicated that the Agency



would conduct a review of the claims it receives during ARFA's final phase. However, he did not clearly state, on behalf of the Agency, that the NTA accepts that it has the authority to assess claims and reject unacceptable ones. Given the manner in which responsibility for the program has been seriously mishandled, it is important that the NTA indicates that it now shares the same interpretation of its powers as the Minister and the Department of Transport. Therefore, the Committee recommends

That the Chairman of the National Transportation Agency confirm to the Committee, in writing, that the Agency has the authority to assess the reasonableness of the claims that are submitted to it and to reject claims where the Agency is unable to satisfy itself as to their reasonableness. He should also indicate that the Agency intends to act on its responsibility. This confirmation should be provided no later than seven days after the tabling of this report.

Mr. Rimmer informed the Committee that the Agency has

developed a new process for reviewing claims showing a significant increase in either rates or levels of activity and for determining that the claim is not based on "unreasonable" rates charged by carriers. (the quotation marks are his)

However, Mr. Rimmer also seemed to express doubts that there was indeed such a thing as an unreasonable rate, telling the Committee that he did not "know of an instance where the Agency has paid a claim based on rates that were 'too high.'" For her part, Ms. Greene told the Committee that "there is no benchmark rate to judge whether that rate is an appropriate rate."

In light of Mr. Rimmer's apparent scepticism that there is such a thing as an unreasonable rate and Ms. Greene's suggestion that it is difficult, if not impossible, to determine what a reasonable rate is, the Committee thinks that it is important that the NTA make public its definition of "reasonableness" and what it considers to be a reasonable rate. Accordingly, the Committee recommends

That the National Transportation Agency submit the criteria it will use and the new tests the Agency will apply to assess the reasonableness of subsidy claims to the Committee no later than seven days after the tabling of this report.

Furthermore, because the Committee is anxious to ensure that affected carriers are made aware of the criteria by which their subsidy claims will be assessed, it recommends

That the NTA communicate its criteria for assessing the reasonableness of rates to the transportation industry in the Select Territory at the same time that it provides this information to the Committee.

The handling of the program, and particularly of the problems associated with it, show that accountability was weak to the extent that it was almost entirely absent. In order to ensure that the termination phase of the program is properly managed and that an appropriate degree of accountability is exercised, the Committee recommends

That the Department of Transport and the National Transportation Agency submit a report to the Committee on the termination phase of the Atlantic Region Freight Assistance Program no later than the end of fiscal year 1995–96. This report should include a) details of the actions taken to assess the reasonableness of claims, b) the rejection of unreasonable claims, c) the amounts of money saved due to the new measures in place, d) the use to which these amounts have been put, e) the extent to which the NTA observed a decrease in the subsidy given to non-arm's length carriers since the Agency's authority to reject unreasonable claims was confirmed in May 1995, f) the number of non-arm's length carriers that inflated their rates for purposes of the subsidy, g) the extent of excess payments made to non-arm's length carriers paid out since deregulation in 1988 due to inflated claims. In addition, the Department of Transport will have to explain why it did not follow up, in 1984, on the request for an amendment of the regulations presented by the NTA. The NTA will in its turn have to explain why it did not act more rapidly on the Auditor General's recommendations on improving the administrative controls over the program. Lastly, the

NTA will have to tell the Committee whether it manages other transport subsidy programs, and if so present the Committee with a description of the administrative control methods used.

In order that the quality and accuracy of the data contained in this report be properly assessed, the Committee recommends

That the report on the termination of ARFA be submitted to the Auditor General for a thorough audit.

The NTA has only committed itself to taking action during the final months of the program. This is in conformity with the Auditor General's recommendations. However, the Committee is concerned about excessive subsidy payments that may have been made prior to the termination phase of the program. If indeed excessive payments were paid — and initial evidence strongly suggests that they were — the Committee believes that an effort should be made to recover them. As Mr. Rimmer told the Committee:

if we find that we've paid money where we shouldn't have, we ask for the money back. In most cases the carriers comply. They willingly give the money back. In some cases, we have had to take people to court. We will take people to court again to get the taxpayers' money back where it has been paid mistakenly.

The NTA is the process of determining what constitutes a "reasonable" rate. It will refuse to pay claims submitted during the final phase of the program that exceed that rate. With its definitions of reasonable rates in hand, it should be able to determine the degree of excess payment made in the past — and take steps to recover it. Therefore, the Committee recommends

That, on the basis of its existing authority to assess the reasonableness of subsidy claims, and the criteria it has established to determine reasonableness, the NTA conduct a review of the subsidy claims that have been paid under ARFA between 1988 and 31 December 1994, the results of this review be submitted to the Committee no later than 30 November 1995; and

That if, as a consequence of this review, the Agency determines payments have been made on claims that do not meet its criteria for reasonableness, it undertake the recovery of excess amounts.

Because the Committee is concerned that the NTA and other subsidy-granting bodies operate within a framework of strict guidelines, it recommends

That Treasury Board develop, make public, and implement a set of guidelines that subsidy-granting agencies must adhere to. These guidelines should include a requirement that agencies collect data on the subsidy programs they administer to ensure these programs are achieving their objectives.

Pursuant to Standing Order 109, the Committee requests the government to table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Issue No. 35 which includes this Report)* is tabled.

Respectfully submitted,

RICHARD BÉLISLE,

Chair.



## DISSENTING OPINION OF THE OFFICIAL OPPOSITION FEDERAL SUBSIDIES FOR TRANSPORT: THE ATLANTIC REGION FREIGHT ASSISTANCE PROGRAM

We, the Bloc Québécois Members on the Standing Committee on Public Accounts, consider the majority report signed by the Committee to be incomplete. In order to give a full account of what was heard during the meeting with the witnesses, the following paragraphs should be added at the end of the report.

“The Department of Transport told the Committee about the results of a study done in 1983 on the consequences of abolishing ARFA. Among other findings, the study concluded that abolition of the program would entail the loss of 12,000 jobs in the region. The Committee is concerned that the government would have gone ahead with abolition of the program in 1995 without having assessed the impact of such a move, given that the data of the 1983 study have not been updated.

In a context where job creation must be a priority, the government must assess the impact of its budgetary decisions. The Committee therefore recommends

That the Department of Transport assess the impact on employment of abolition of the ARFA subsidy. The government should then emphasize job creation programs in the affected regions in a way that reflects the Department's findings.

Further, a comparison of the value of the financial compensation introduced by the 1995 Budget in consequence of abolition of freight subsidies with the amounts of those subsidies as provided for in the legislation shows that the different programs have not been compensated for equally. The financial support awarded in consequence of repeal of the *Western Grain Transportation Act* represents more than four years of subsidy, while the ratio falls to less than three years for ARFA. Accordingly the Committee recommends

That the government review the amounts allocated under the 1995 Budget as compensation for abolition of freight subsidies, so that the assistance provided represents the same compensation : subsidy ratio for the Atlantic Region Freight Assistance Program.”

Ottawa, Thursday, June 22, 1995

Richard Bélisle

René Laurin

Gilbert Fillion



## APPENDIX D

### REPORT ON THE AUDIT OF THE PRESIDENT OF THE TREASURY BOARD'S REPORT TO PARLIAMENT:

#### ***TABLINGS IN PARLIAMENT FOR PARENT CROWN CORPORATIONS: ANNUAL REPORTS AND SUMMARIES OF CORPORATE PLANS AND BUDGETS***

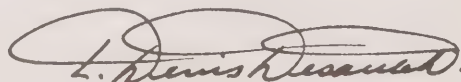
**Introduction.** The *Financial Administration Act* requires the President of the Treasury Board to lay before each House of Parliament a report concerning the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations subject to the reporting provisions of Part X of the Act.

The report on these tablings allows Parliament to hold the appropriate ministers (and, ultimately, the Crown corporations) accountable for providing, within the relevant statutory deadlines, the information required under the *Financial Administration Act*. Accordingly, the report is required to indicate the time at, before, or within which the annual reports and the summaries of corporate plans, capital budgets and operating budgets (and amendments to them) were required to be tabled before each House during the reporting period; and the time they were actually tabled. The report on tablings is included in the President of the Treasury Board's annual report to Parliament, *Crown Corporations and Other Corporate Interests of Canada*.

**Scope.** In my annual Report to the House of Commons, I am required by subsection 152(2) of the *Financial Administration Act* to attest to the accuracy of the information contained in the President of the Treasury Board's report on tablings. Accordingly, I have examined the report for the year ended 31 July 1995, to be tabled not later than 31 December 1995\*.

My examination included a review of the systems and procedures used by Treasury Board to monitor the tabling of the summaries and annual reports in each House of Parliament, a verification of the information contained in the report, and such other tests and procedures as I considered necessary in the circumstances.

**Opinion.** In my opinion, the information contained in the report about the timing of tabling, by the appropriate ministers, of Crown corporations' annual reports and summaries (and amendments to them) of corporate plans, capital budgets and operating budgets is accurate in all significant respects.



L. Denis Desautels, FCA  
Auditor General of Canada

OTTAWA, 4 October 1995

\* Not tabled at time of going to press





# APPENDIX E

## The Costs of Crown Corporation Audits Conducted by the Office of the Auditor General of Canada

Section 147 of the *Financial Administration Act* requires that the Office disclose the costs of preparing audit reports on all Crown corporations other than those exempted under section 85 of the Act (see Exhibit 1). An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

The Office is also required by section 68 of the *Broadcasting Act* to report the cost of any audit report on the Canadian Broadcasting Corporation. For the fiscal year ended 31 March 1995, the full cost of the annual audit report was \$646,440.

Section 138 of the *Financial Administration Act* requires that, at least once every five years, each parent Crown corporation named in Schedule III of the Act undergo a special examination. This is distinct from the requirement for the annual audit of financial statements.

The objective of a special examination is to determine whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that:

- assets have been safeguarded and controlled;
- financial, human and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 1994–95 the Office completed the special examination of fifteen Crown corporations. The costs to the Office were:

Canada Deposit Insurance Corporation	\$ 726,900
Canada Development Investment Corporation (Joint Examiner)	84,900
Canada Mortgage and Housing Corporation	945,630
Canada Post Corporation (Joint Examiner)	654,100
Canadian Commercial Corporation	322,780
Defence Construction (1951) Limited	297,820
Enterprise Cape Breton Corporation	391,390
Export Development Corporation	589,250
Freshwater Fish Marketing Corporation	226,710
Laurentian Pilotage Authority	293,980
Marine Atlantic Inc. (Joint Examiner)	766,440
Old Port of Montréal Corporation Inc.	200,600
Pacific Pilotage Authority	106,850
Royal Canadian Mint	688,430
Standards Council of Canada	190,390

## Exhibit 1

**Costs of Preparing Annual Audit  
Reports for Fiscal Years Ending  
on or before 31 March 1995**

<b>Crown Corporation</b>	<b>Fiscal Year Ended</b>	<b>Cost Incurred</b>
Atlantic Pilotage Authority	31.12.94	\$ 38,920
Atomic Energy of Canada Limited	31.03.95	388,450
Canada Deposit Insurance Corporation	31.03.95	166,720
Canada Development Investment Corporation (Joint Auditor)	31.12.94	31,110
Canada Lands Company Limited	31.03.95	5,370
Canada Lands Company (Vieux-Port de Québec) Inc.	31.03.95	4,630
Canada Mortgage and Housing Corporation (Joint Auditor)	31.12.94	289,810
Canada Museums Construction Corporation Inc.	31.03.95	5,700
Canadian Commercial Corporation	31.03.95	92,450
Canadian Dairy Commission	31.07.94	119,040
Canadian Museum of Civilization	31.03.95	112,020
Canadian Museum of Nature	31.03.95	56,620
Canadian Saltfish Corporation	31.03.95	15,420
Cape Breton Development Corporation	31.03.95	287,370
Defence Construction (1951) Limited	31.03.95	39,960
Enterprise Cape Breton Corporation	31.03.95	60,620
Export Development Corporation	31.12.94	278,860
Farm Credit Corporation	31.03.95	309,340
Federal Business Development Bank (Joint Auditor)	31.03.95	218,570
Freshwater Fish Marketing Corporation	30.04.94	97,230
Great Lakes Pilotage Authority, Ltd.	31.12.94	46,140
Laurentian Pilotage Authority	31.12.94	110,340
Marine Atlantic Inc. (Joint Auditor)	31.12.94	106,810
National Capital Commission	31.03.95	167,010
National Gallery of Canada	31.03.95	79,340
National Museum of Science and Technology	31.03.95	50,620
Old Port of Montreal Corporation Inc.	31.03.95	96,620
Pacific Pilotage Authority	31.12.94	51,340
Petro-Canada Limited	31.12.94	23,540
Queens Quay West Land Corporation	31.03.95	19,340
Royal Canadian Mint	31.12.94	270,590
The St. Lawrence Seaway Authority	31.03.95	85,600
Seaway International Bridge Corporation Ltd.	31.12.94	36,210
The Jacques Cartier and Champlain Bridges Incorporated	31.03.95	75,640
Standards Council of Canada	31.03.95	30,350
VIA Rail Canada Inc. (Joint Auditor)	31.12.94	165,460

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